HDFC Bank

BSE SENSEX	S&P CNX
53,424	16,013

CMP: INR1,327 TP: INR2,000 (+51%) Buy

Buy into weakness

Strong earnings outlook; trading at ~2 Std. Dev. below its 10-year avg.

- **HDFC Bank (HDFCB) has exhibited a healthy revival in retail loan growth propelled by a pick-up in unsecured segments while the commercial banking segment has also witnessed strong traction. These have enabled a recovery in NII growth and will support Margin/PPoP growth – both of which have likely bottomed out in our view.**
- **The bank has been expanding its presence in the Semi-urban and Rural (SURU) regions, which is enabling it to capitalize on the growth opportunities. HDFCB is steadily becoming the largest lender in MSME financing.**
- **HDFCB maintains a healthy market share across digital channels – 18% share in POS terminals, 9%/27% in debit/credit card spends, and 23% in o/s credit cards as of 9MFY22. About 96% of the transactions occur digitally that enable a strong control on cost ratios.**
- **Asset quality remains robust with credit costs undershooting the long-term trend. HDFCB is thus increasing the contingency buffers prudently, which provide comfort.**
- **We expect the bank to deliver a healthy business growth fueled by a pick-up in retail (unsecured products) business and continued strength in commercial banking business. We estimate HDFCB to report ~18% PAT CAGR over FY22-24, with an RoA/RoE of 2.0%/17.5% in FY24E, respectively.**
- **The stock has undergone a significant correction and is trading at ~2SD below its 10-year average valuations, while the growth and earnings outlook remains robust. HDFCB continues to be our high conviction BUY in the banking space and we retain our TP of INR2,000 (premised on 3.4x FY24E ABV + INR127 from subsidiaries). Our TP implies 51% potential upside from the current level.**
- **Downside risks: Sluggish margin recovery and performance of restructuring book.**

Retail loan growth revives; expect strong traction to sustain

HDFCB exhibited robust traction in corporate and commercial banking segments until FY21, which offset the softness in retail lending. However, the bank has witnessed a healthy pick-up in retail loans recently, which grew at an average of 5% QoQ over the past two quarters. The recent growth was led by the unsecured business, as personal loans and credit card book rose 11%/16% over similar period while home loans grew 9.1%. The growth in auto financing business continued to remain tepid due to softer trends in passenger vehicle financing while the two-wheeler segment continued to report sequential decline. We expect retail growth to remain healthy fueled by continued recovery in unsecured products, home loans and LAP. We thus estimate overall loans to clock ~18% CAGR over FY22-24.

'SURU' to be a key focus area going ahead

HDFCB has created a new business segment of Commercial and Rural Banking to capture the next wave of growth and indicated that it is the largest bank in MSME segment. The segment is witnessing robust traction and grew at >25% YoY over the past few quarters. In 3QFY22, commercial and rural loans grew 30% YoY while growth in low-yielding corporate book moderated to 7% YoY. HDFCB indicated that it would continue to expand its presence in the SURU region by enhancing its banking channel network across India. We expect the healthy trend to continue.

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5,542
M.Cap.(INRb)/(USDb)	7356.8 / 95.6
52-Week Range (INR)	1724 / 1292
1, 6, 12 Rel. Per (%)	-2/-8/-19
12M Avg Val (INR M)	11055
Free float (%)	79.0

Financials Snapshot (INR b)

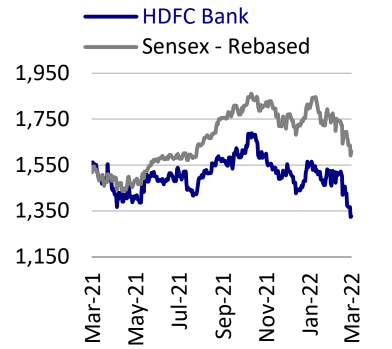
Y/E March	FY22E	FY23E	FY24E
NII	724.9	857.2	1,017.0
OP	649.9	761.3	890.5
NP	366.8	440.5	514.9
NIM (%)	4.0	4.2	4.3
EPS (INR)	66.5	79.9	93.4
EPS Gr. (%)	17.6	20.1	16.9
BV/Sh. (INR)	424.7	492.6	574.0
ABV/Sh. (INR)	411.1	476.3	555.1
Ratios			
RoE (%)	16.8	17.4	17.5
RoA (%)	2.0	2.0	2.0
Valuations			
P/E(X)	19.9	16.6	14.2
P/BV (X)	3.1	2.7	2.3
P/ABV (X)	3.2	2.8	2.4

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

Stock Performance (1-year)



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Strong digital capabilities to underpin business growth and cost ratios

HDFCB continues to maintain a leading market share across multiple digital channels with 18% share in POS terminals and ~9%/~27% share in debit/credit card spends as of 9MFY22. It has a credit card base of 15.8m (23% share) over the similar period. About 96% of transactions are carried out digitally, resulting in continuous improvements in cost ratios and productivity. We thus estimate its C/I and cost-asset ratio at ~38%/~2.0%, respectively.

Margins on the cusp of revival; NII growth to recover to 18% over FY22-24E

HDFCB has witnessed margin compression of 20bp as of 3QFY22 v/s the pre-COVID level. However, with revival in retail loan growth along with improving product mix and continued strength in liability franchise (CASA ratio has improved 410bp YoY to 47.1% in 3QFY22), we expect NIMs to improve gradually. We note that after decelerating sharply at +8.6% YoY during 1QFY22, NII growth has recovered to 13% YoY in 3QFY22. We estimate NII growth to improve successively and sustain at 18% CAGR over FY22-24. This will enable a revival in PPoP growth as well, which too has softened to ~11% YoY during 3QFY22.

Raising contingency buffers as credit cost undershoots long-term trends

HDFCB has been reporting controlled levels of slippages over the recent quarters, which have enabled improvements in asset quality ratios. GNPA and NNPA ratios have thus moderated to 1.26% and 0.37%, respectively, while PCR has remained healthy at ~71%. Restructured book has declined to ~INR175b (~1.4% of loans) and the bank remains confident on the quality of this book. HDFCB estimates the eventual impact to be limited to 10-20bp of NPAs. The controlled slippage run-rate has allowed the bank to shore up its contingent provisions prudently and reinforce its balance sheet further. HDFCB has thus raised the total provisioning buffer to ~INR86.4b (~70bp of loans). We estimate the credit cost to sustain at an average of ~1.1% over FY22-24 as it continues to bolster its near-term contingent provisions.

Earnings outlook robust; estimate PAT CAGR of 18% over FY22-24

HDFCB appears well positioned to deliver an improvement in PPoP growth at an average of 17% over FY22-24E after likely moderation in FY22E. During the past few quarters, the bank has shown recovery in retail loan growth that has translated into a pick-up in NII/PPoP growth. We believe that as its asset mix continues to improve and costs remain in control, operating earnings will gain further traction in FY23E. We thus estimate HDFCB to report 17%/18% PPoP/PAT CAGR over FY22-24E.

Strong earnings outlook; valuations attractive at current level

HDFCB continues to deliver strong business growth v/s peers and its business momentum has swiftly recovered to pre-COVID levels. This is propelled by a healthy pick-up in the Retail segment, while growth in Commercial and Rural Banking remains robust. We expect the margin trajectory to recover gradually over FY23 while the uptick in retail loan growth and unsecured products would be supportive of fee income trends. Asset quality ratios have improved, though the restructured book stands comparatively higher at 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 support NII and margin, which would drive profitability in the coming quarters. We estimate HDFCB to deliver ~18% PAT CAGR over FY22-24, with an RoA/RoE of 2.0%/17.5% in FY24. HDFCB is currently trading at an attractive valuation of 2.4x FY24E P/ABV, which offers favorable risk-reward. **We maintain our BUY rating with a TP of INR2,000 (premised on 3.4x FY24E ABV + INR127 from subsidiaries).**

Retail loan growth revives; expect strong traction to sustain

'SURU' to be a key focus area going ahead

- HDFCB exhibited robust traction in corporate and commercial banking segments until FY21, which offset the softness in retail lending. However, the bank has witnessed a healthy pick-up in retail loans recently, which grew at an average of 5% QoQ over the past two quarters. The recent growth was led by the unsecured business, as personal loans and credit card book rose 11%/16% over similar period while home loans grew 9.1%. The growth in auto financing business continued to remain tepid due to softer trends in passenger vehicle financing while the two-wheeler segment continued to report sequential decline. We expect retail growth to remain healthy fueled by continued recovery in unsecured products, home loans and LAP. We thus estimate overall loans to clock ~18% CAGR over FY22-24.
- The Wholesale segment focuses on institutional customers, such as governments, large and emerging corporates, and SMEs; it offers working capital and term loans, supply chain financing, trade credit, CMS, foreign exchange and investment banking services. The bank expanded its share of the customer wallet – primarily via higher customization, cross-selling, and expansion into greater geographies – and continued to lend with prudence.

Exhibit 1: Loan growth moderated to 14% YoY in FY21; expected to pick up and post 18% CAGR over FY22-24

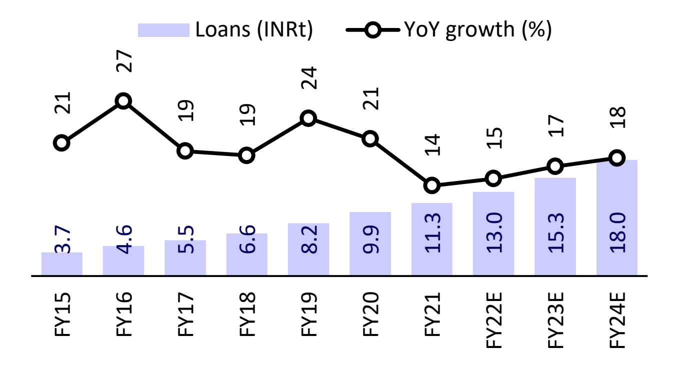


Exhibit 2: HDFCB's loan market share (%) expanded ~45bp over 9MFY22 to 10.8%

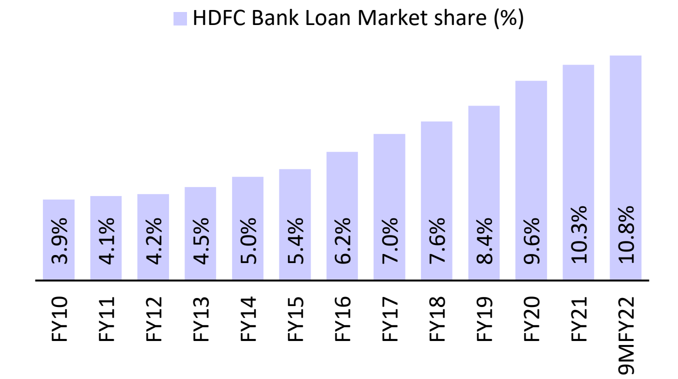
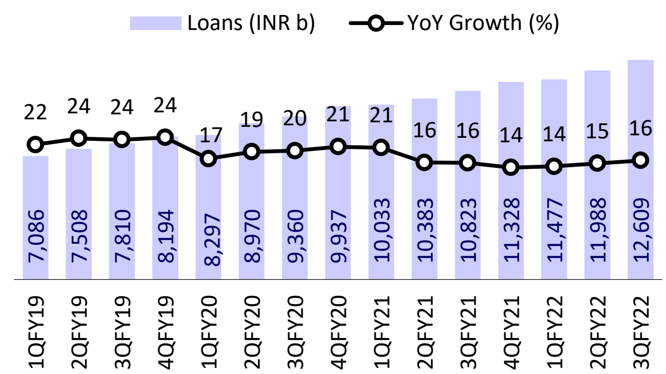
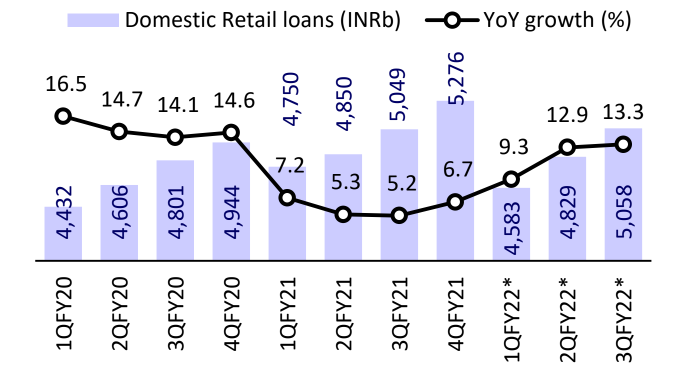


Exhibit 3: Loan growth witnessing a gradual pick up over the past few quarters



Source: MOFSL, Company

Exhibit 4: Growth in retail loans too witnessing a healthy pick up



*Reclassification from 1QFY22 onwards

Source: MOFSL, Company

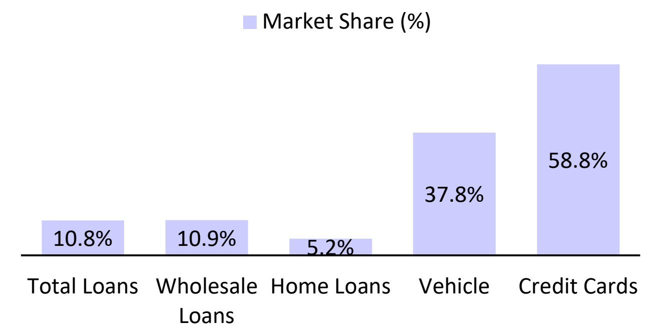
- The bank is focusing on its strategy of expanding its distribution footprint by leveraging the branch and virtual relationship channels, with the addition of digital marketing as a key channel. Lead indicators suggest that the semi-urban and rural markets are now seeing accelerating trends, with ~50% of the total branches being located in these regions (v/s 27% in FY10). Thus, it is well placed to gain incremental market share from these markets. Management indicated that HDFCB has become the largest bank in MSME segment and the growth is likely to be propelled by geographical expansion and new product offerings.
- HDFCB has created a new business segment of Commercial and Rural Banking to capture the next wave of growth and indicated that it is the largest bank in MSME segment. The segment is witnessing robust traction and grew at >25% YoY over the past few quarters. In 3QFY22, commercial and rural loans grew 30% YoY while growth in low-yielding corporate book moderated to 7% YoY. HDFCB indicated that it would continue to expand its presence in the SURU region by enhancing its banking channel network across India. We expect the healthy trend to continue.
- Further, the bank would continue to strengthen its leadership position in the Payments and Retail Assets businesses. HDFCB has a core focus on Wealth Management and Private Banking segments.

Exhibit 5: QoQ growth trend in segmental loans

QoQ growth (%)	4QFY21	1QFY22	2QFY22*	3QFY22*
Vehicle	2.7%	-1.8%	3.4%	0.8%
Personal	2.9%	1.0%	4.9%	5.6%
Credit Cards	2.1%	-6.6%	7.4%	8.1%
Business Banking	7.7%	3.6%	6.8%	7.0%
Home Loans	5.4%	2.9%	4.9%	4.3%
Retail Loans	4.5%	-0.7%	5.4%	4.7%
Wholesale Loans	4.8%	2.7%	3.8%	5.5%
Total Loans	4.7%	1.3%	4.5%	5.2%

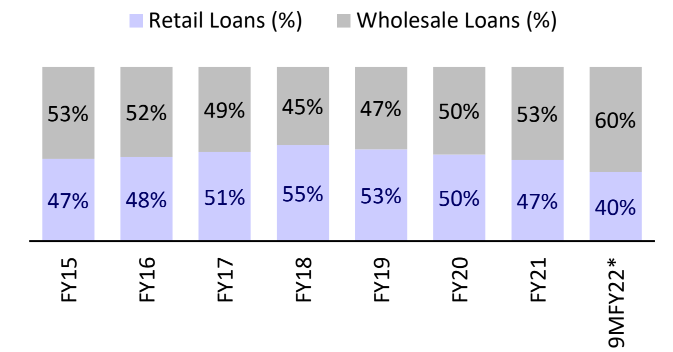
*Reclassification from 1QFY22 onwards Source: MOFSL, Company

Exhibit 6: Market share across key segments – 9MFY22



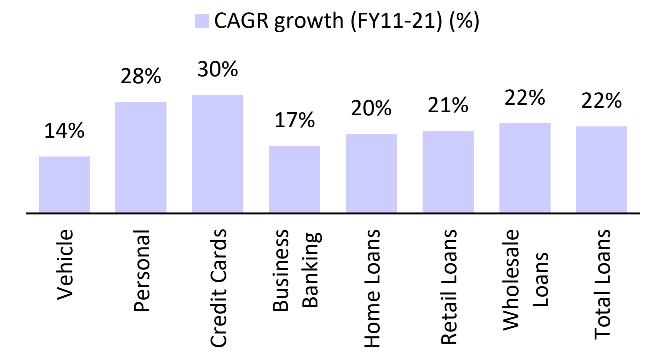
Source: MOFSL, Company

Exhibit 7: Loan mix shifts in favor of Wholesale



*Reclassification from 1QFY22 onwards Source: MOFSL, Company

Exhibit 8: Loan CAGR across segments



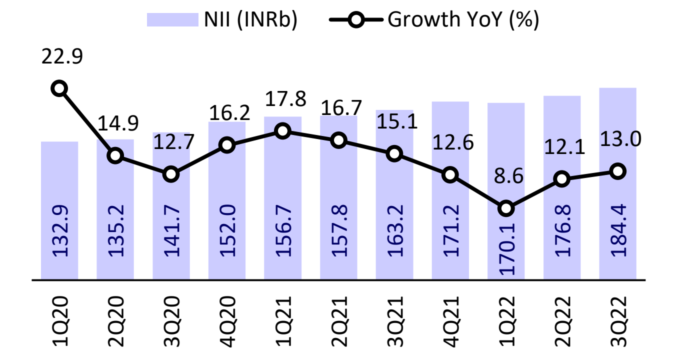
Source: MOFSL, Company

NII growth/Margins at the cusp of a recovery

Liability franchise strong; CASA mix healthy at ~47%

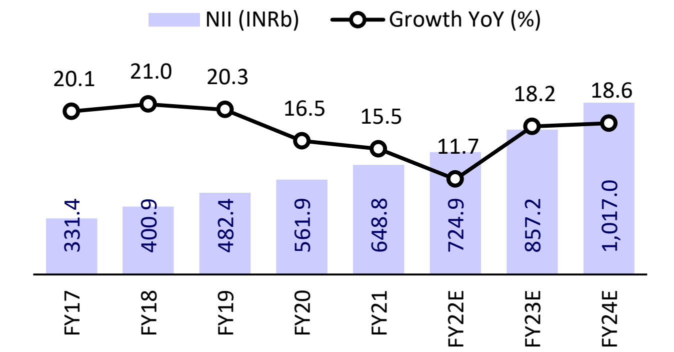
- Post the pandemic, HDFCB has been witnessing a moderation in its NII growth led by sluggishness in retail loans as the overall growth was primarily driven by its corporate book. As a result, NII growth moderated to 8.6% in 1QFY22 v/s ~18% in 1QFY21. This coupled with lower revolver mix within the credit card business, excess liquidity and yield pressure from monetary easing resulted in margins contracting to 4.1% v/s 4.3% over the similar period. However, during the past few quarters, NII growth is witnessing a gradual pick up and improved to 13% in 3QFY22 v/s 8.6% in 1QFY22. This was fueled by a pick-up in retail loans, which grew at ~4.7-5.4% over 2Q-3QFY22.
- We believe that a continuous revival in retail disbursements and a gradual improvement in revolver mix would continue to support NII growth. These coupled with a healthy CASA ratio (~47%) and lower cost of deposits would further support margins. While the cost of deposits has bottomed out (HDFCB recently increased its TD rate), we expect deposits to re-price gradually while yields are likely to improve backed by a rising interest rate scenario. Overall, we expect HDFCB's margins to exhibit improving trends.

Exhibit 9: NII growth witnessing healthy pick up over the past few quarters; up at 13% in 3QFY21 v/s 8.6% in 1QFY21



Source: MOFSL, Company

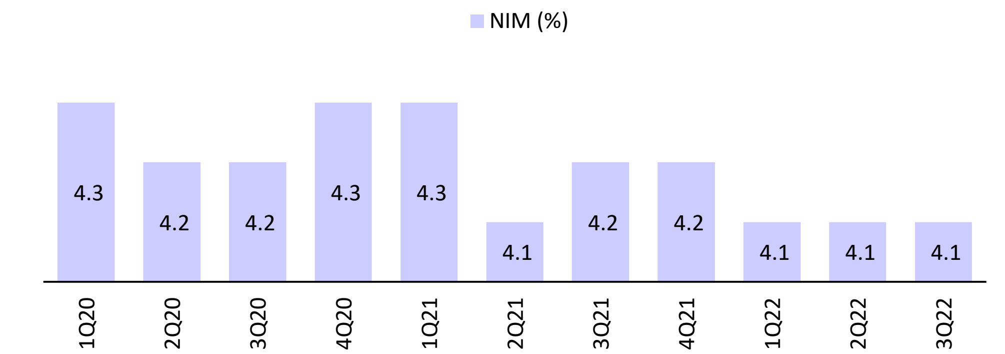
Exhibit 10: We expect NII growth to witness healthy traction; likely to grow at 18-19% over FY23-24E



Source: MOFSL, Company

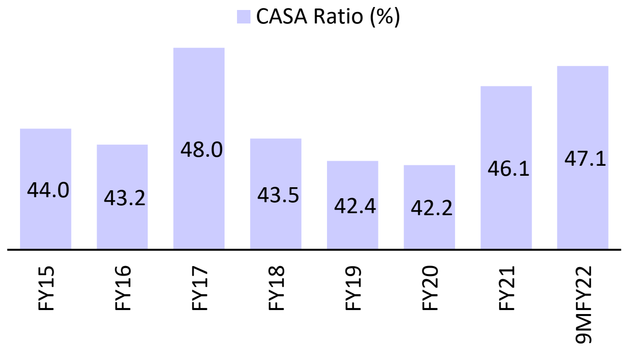
We expect margins to pick up gradually as the mix of Retail loans / Revolver mix within the credit card loans increases

Exhibit 11: NIM has been under pressure over the past few quarters at 4.1%; we expect a gradual improvement in NIM led by traction in retail loans and increase in revolver mix



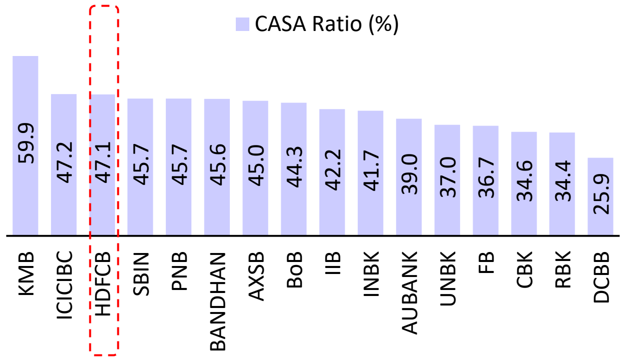
Source: MOFSL, Company

Exhibit 12: CASA ratio surges to 47.1% (+410bp)



Source: MOFSL, Company

Exhibit 13: CASA ratios across peers as on 9MFY22



Source: MOFSL, Company

Exhibit 14: NIM trends across banks – most of the banks witnessed stable to improving trend over 3QFY22

NIM (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
AXSB	3.40	3.51	3.57	3.55	3.40	3.58	3.59	3.56	3.46	3.39	3.53
DCBB	3.67	3.67	3.71	3.64	3.42	3.74	3.75	3.46	3.31	3.37	3.61
HDFCB	**4.30**	**4.20**	**4.20**	**4.30**	**4.30**	**4.10**	**4.20**	**4.20**	**4.10**	**4.10**	**4.10**
ICICIBC	3.61	3.64	3.77	3.87	3.69	3.57	3.67	3.84	3.89	4.00	3.96
IIB	4.05	4.10	4.15	4.25	4.28	4.16	4.12	4.13	4.06	4.07	4.10
KMB	4.49	4.61	4.69	4.72	4.40	4.52	4.36	4.39	4.60	4.45	4.62
FB	3.15	3.01	3.00	3.04	3.07	3.13	3.22	3.23	3.15	3.20	3.27
RBK	4.31	4.35	4.57	4.93	4.85	4.34	4.19	4.17	4.36	4.06	4.34
SBIN	2.81	2.99	3.05	2.97	3.01	3.12	3.12	2.90	2.92	3.24	3.15
BoB	2.62	2.81	2.80	2.63	2.52	2.78	2.77	2.72	3.04	2.85	3.13
CBK	2.29	2.21	2.36	2.28	2.84	2.82	2.71	2.50	2.71	2.77	2.83
UNBK	2.12	2.35	2.47	2.22	2.78	2.78	2.94	2.38	3.08	2.95	3.00

Source: MOFSL, Company

Exhibit 15: Cost of deposits continues to moderate

Cost of Deposits (%)	3QFY22	YoY (bp)	QoQ (bp)
AXSB	3.60%	(49)	(9)
HDFCB	**NM**	**NM**	**NM**
ICICIBC	3.47%	(50)	(6)
KMB	NM	NM	NM
SBIN	3.83%	(43)	(1)
IIB	4.66%	(68)	(19)
DCBB	5.96%	(47)	(12)
FB	4.27%	(60)	(5)
RBK	4.76%	(95)	(25)

Source: MOFSL, Company

Exhibit 16: Cost of funds is also declining across banks

Cost of Funds (%)	3QFY22	YoY (bp)	QoQ (bp)
AXSB	3.77%	(53)	(10)
HDFCB*	**3.51%**	**(5)**	**(1)**
ICICIBC	3.66%	(45)	(5)
KMB*	3.12%	(49)	(10)
SBIN*	3.64%	(29)	(3)
IIB	4.26%	(48)	(11)
DCBB	6.07%	(50)	(12)
FB*	4.15%	(50)	(1)
RBK	4.82%	(94)	(28)

*On a calculated basis

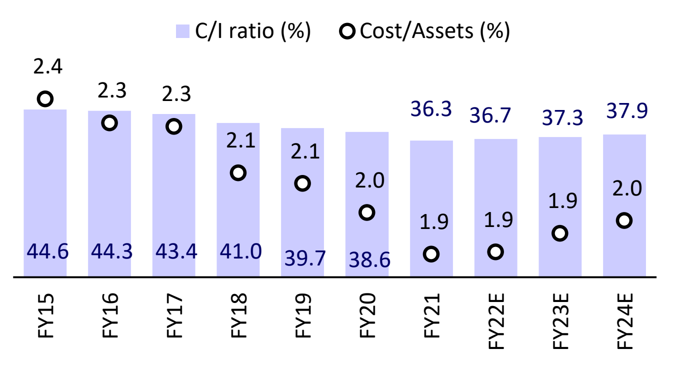
Source: MOFSL, Company

Cost ratios under control; C/I ratio to remain broadly stable

Operating leverage and benefits from digitalization to continue

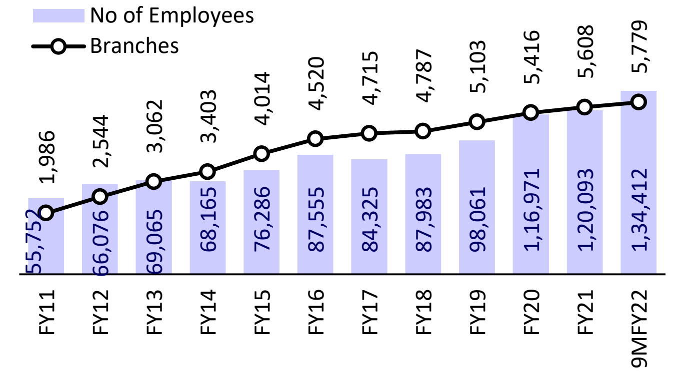
- HDFCB's opex strategy is centered on: a) improving operating efficiency, b) the efficient use of digital technology, thereby increasing customer convenience and ease, and c) competing against disruptive technology.
- The bank has reported steady improvement in operating costs as C/I ratio improved ~800bp over FY16-21 enabling it to maintain a healthy earnings growth. The benefit has come despite the bank adding 1,100 branches and ~33k employees over a similar period. Digitalization has helped improve costs sharply, led by lower customer acquisition/servicing costs. About ~96% of transactions happen digitally, which has enabled the bank to materially lower its costs.
- The bank is constantly making investments in the business and building digital capabilities, which will aid in further expansion of the business. The bank has added ~19k employees/450 branches since the pandemic and is looking to add another 500 branches over the new term. This coupled with continuous investment in technology will likely keep the opex elevated in the near term (cost-to-core income ratio guided at ~38%) and then moderate gradually over the medium term. We expect the C/I and cost-to-assets ratio to be at ~38% and 2.0% in FY24, respectively.

Exhibit 17: Cost ratios improve significantly over FY21, likely to remain stable over the medium term



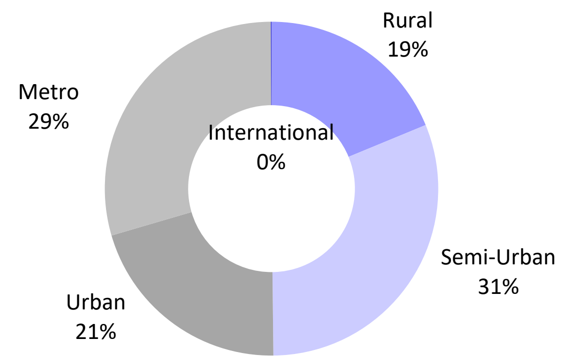
Source: Company, MOFSL

Exhibit 18: HDFCB added ~19k employees and 450 branches since the pandemic



Source: Company, MOFSL

Exhibit 19: Region wise split of branches – 50% of branches in the SURU region (FY21)



Source: Company, MOFSL

Asset quality stable; PCR to remain healthy ~71%

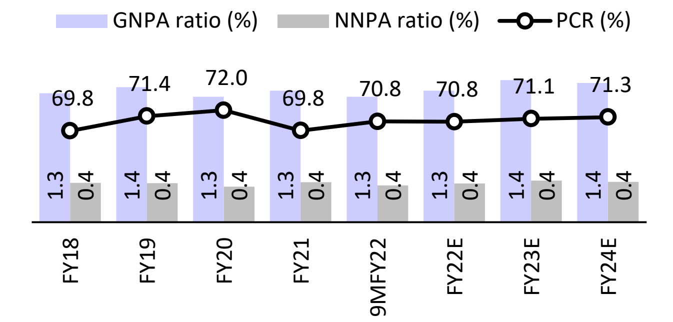
Raising contingency buffers as credit cost undershoots long-term trends

- HDFCB is witnessing gradual moderation in slippages over the past few quarters which declined to 1.6% in 3QFY22 from 2.5% in 1QFY22 led by decline in retail slippages even as Agri slippages remains elevated. Thus, GNPA ratio moderated to 1.26% from 1.47% over similar period. We note that superior underwriting has enabled HDFCB to maintain a sharp control in its credit cost, which undershoots the long-term trends. This enabled the bank to continuously create contingent provision buffers while increasing the PCR to 71%.

Restructuring book forms 1.4% of loans; however, healthy contingent provision buffer provides comfort

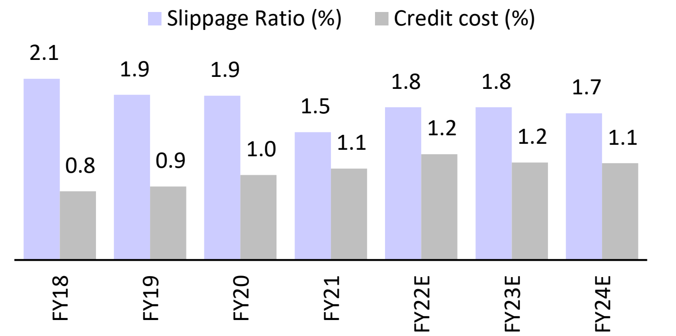
- The total restructuring book stands at INR175b (1.37% of loans). While the bank saw elevated slippages at INR16.9b (22%) from restructuring 1.0, it has been more conservative under restructuring 2.0. About 40% of this book is secured while within the unsecured book, ~2/3rd is towards the salaried segment. It has further indicated that ~65-70% of the restructuring book has started making payments with 100% of restructuring 1.0 out of the moratorium. Thus, the bank expects the net impact of restructuring on potential NPAs to be at 10-20bp.
- The Restructuring/ECLGS book is performing well for the bank, which along with continuous improvement in the environment will keep the slippages under control. HDFCB holds floating provision of INR14.5b and contingent provision of INR86.4b and indicated that benign core credit cost will enable it to continue make additional provisions. We thus estimate credit cost to moderate to ~1.1% by FY24.

Exhibit 20: Asset quality ratios to remain broadly stable; PCR to remain healthy at ~71%



Source: Company, MOFSL

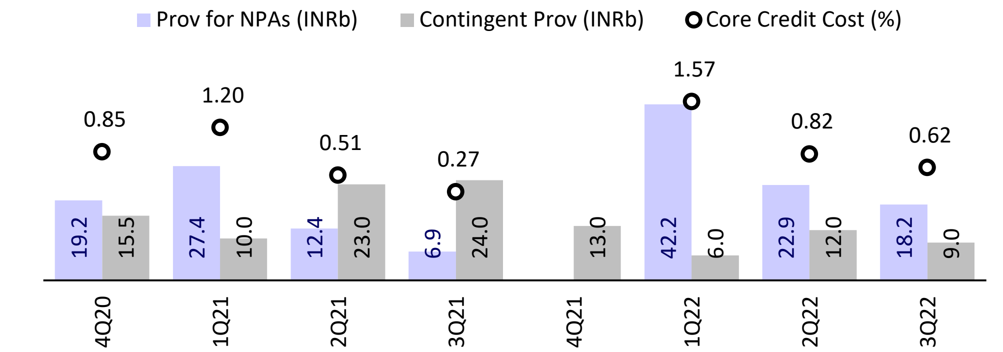
Exhibit 21: We expect slippage ratio at 1.7%; credit cost to witness gradual moderation to 1.1% by FY24E



Source: Company, MOFSL

Core credit cost undershoots the long-term trend, enabling the bank to make contingent provisions buffer

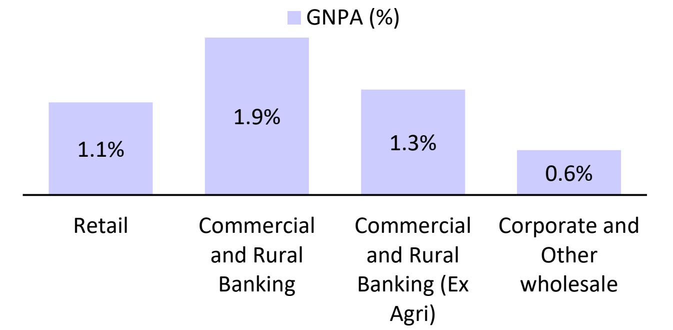
Exhibit 22: Trend of specific NPA provisions, core credit cost and contingent provisions



*Specific Provision for NPA is not available for 4QFY21

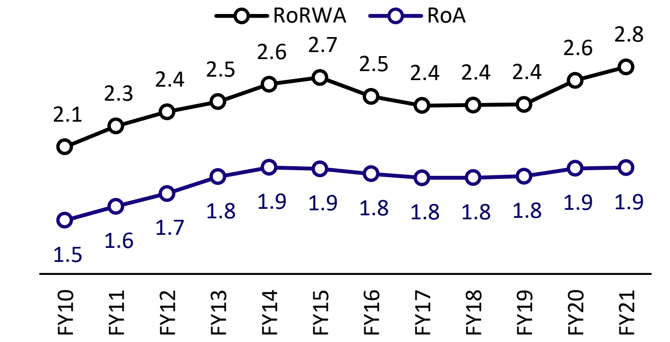
Source: Company, MOFSL

Exhibit 23: Segmental GNPA as on 9MFY22: GNPA ratios ex of Agri remains controlled; Corporate GNPA strong at 0.6%



Source: Company, MOFSL

Exhibit 24: RoRWA up 30bp over FY19-21 v/s 7bp improvement in RoA



Source: Company, MOFSL

Strong digital capabilities to support business growth

Market share of 18% in POS terminals, and 23% in o/s credit cards

- HDFCB continues to maintain a leading market share across multiple digital channels with 18% share in POS terminals and ~9%/~27% share in debit/credit card spends as of 9MFY22. It has a credit card base of 15.8m (23% share) over similar preriod. About 96% of transactions are carried out digitally, resulting in continuous improvements in cost ratios and productivity.
- The bank has embarked on a technology transformation journey, building new competencies through **Digital Factory, Enterprise Factory,** and **Enterprise IT** to both 'Run' and 'Build the Bank'. The objective is to ensure that the core technologies are **'always 'ON'** and building resilience.
- The bank has further introduced various curated solutions for the Corporate and SME segments and would grow this segment by 2x over the coming two years.
- HDFCB has been leading the business of merchant acquisitions for 15+ years. Despite the disruptive competition in this space, **the bank has continued to grow, with ~47% market share in this space currently. The focus is on growing the current 2m acceptance point network by 10x over the next 3–5 years.**
- The bank recently launched **SmartHub Merchant Solutions 3.0** – India's first comprehensive banking and payments solution for merchants/self-employed professionals. It would enable the bank to reach out to more than 20m small and medium merchants as well as other professionals over the next three years.
- **Rural digital initiatives** – These align with GOI's Digital India Initiative and have helped penetrate the SURU markets; the bank has been able to extend its banking services at the gram panchayat levels.
- Technical declines are down with the **average uptime for customers at 99.91%** at the year-under review.

Exhibit 25: Market share in o/s credit cards

Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
HDFCB	**29.7**	**28.6**	**28.5**	**26.5**	**25.1**	**24.2**	**23.0**
SBIN	14.8	15.3	16.7	17.6	18.3	19.1	19.1
ICICIBC	14.9	14.3	13.3	14.1	15.8	17.1	17.9
AXSB	9.8	11.2	12.0	12.7	12.1	11.5	11.8
RBL	0.6	0.9	2.1	3.6	4.6	4.8	5.0

Source: MOFSL, Company

Exhibit 26: Market share in credit card spends

Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
HDFCB	**30.6**	**29.4**	**28.6**	**28.0**	**28.8**	**30.9**	**26.6**
SBIN	12.0	13.2	16.6	17.1	17.8	19.4	19.1
ICICIBC	10.9	10.9	11.1	11.1	12.2	14.6	19.9
AXSB	7.5	8.7	9.6	10.2	10.4	8.4	8.5
RBL	0.4	0.9	1.5	2.7	4.0	4.7	4.5

Source: MOFSL, Company

Exhibit 27: Market share in o/s debit cards

Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
SBIN	28.6	33.3	32.3	34.2	33.6	32.7	29.8
BOB	4.9	5.1	6.0	6.6	6.5	7.3	7.8
ICICIBC	4.9	4.3	4.8	4.8	5.6	4.3	3.9
BOI	5.3	5.5	6.2	6.5	4.8	4.6	4.7
HDFCB	**3.5**	**2.8**	**2.8**	**2.9**	**3.9**	**4.1**	**4.4**

Source: MOFSL, Company

Exhibit 28: Market share in debit card spends

Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
SBIN	31.5	31.0	39.8	37.5	35.5	35.8	33.7
HDFCB	**8.3**	**8.1**	**7.3**	**7.6**	**7.9**	**8.0**	**9.3**
ICICIBC	8.4	7.8	7.0	6.9	7.5	7.4	6.3
AXSB	5.8	5.5	5.0	5.2	5.7	5.6	5.3
BOB	3.1	3.1	3.0	3.1	4.5	4.6	4.6

Source: MOFSL, Company

Exhibit 29: Market share in POS terminals

POS – Market Share (%)	FY16	FY17	FY18	FY19	FY20	FY21	9MFY22
RBK	0.1%	3.2%	13.1%	18.6%	25.5%	13.3%	10.6%
SBI Cards	21.8%	20.1%	20.2%	15.5%	13.1%	15.8%	14.9%
AXSB	19.0%	17.1%	16.0%	13.6%	10.2%	12.8%	15.9%
HDFCB	**20.4%**	**17.0%**	**12.9%**	**13.2%**	**17.0%**	**18.9%**	**18.4%**
ICICIBC	14.5%	12.1%	10.4%	10.5%	9.4%	13.2%	15.5%

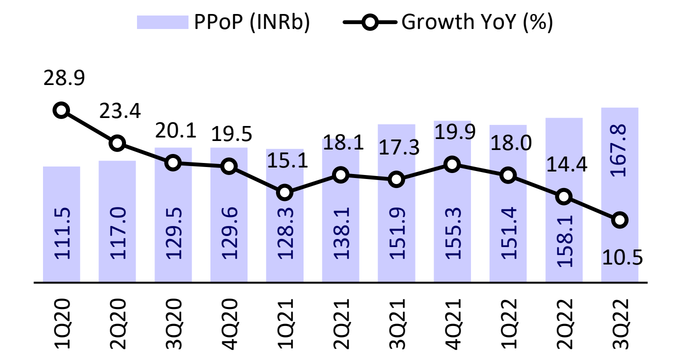
Source: MOFSL, Company

Earnings remain buyont; PPoP growth to witness steady traction

Return ratios to remain robust; valuations offer favorable risk-reward

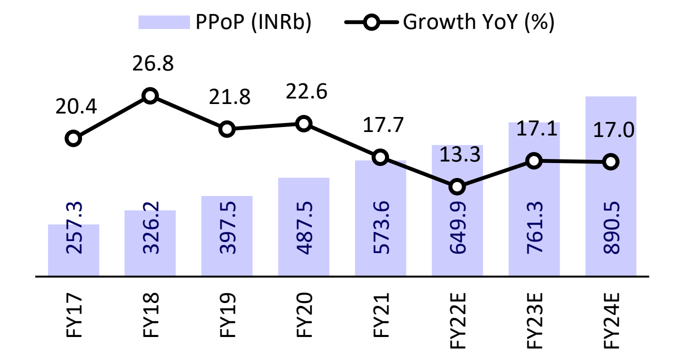
- PPoP growth for the bank has been under pressure over the past few quarters impacted by lower NII growth, modest fee income (due to lower credit utilization/revolve rate and waivers in card segment) and increase in opex. PPoP growth for the bank thus moderated to 10.5% in 3QFY22 from 18% in 1QFY22. However, we believe that with a pick-up in retail loan growth and fee income, operating profits are likely to witness steady traction and hence we estimate PPoP to report 17% CAGR over FY22-24.
- Notably, despite the modest operating performance, RoA for the bank stood robust at 2.2% for 3QFY22. This was supported by a benign core credit cost even as the bank continued to make contingent provision buffers. We believe that a pick-up in loan growth, particularly Retail, would aid NII and margin and subsequently drive profitability. We thus estimate HDFCB to deliver ~18% PAT CAGR over FY22-24, with an RoA/RoE of 2.0%/17.5% in FY24E. The stock has undergone significant correction and is trading at ~2SD below its 10-year average valuations while the growth and earnings outlook stands robust. HDFCB is currently trading at an attractive valuation of 2.4x FY24E P/ABV, which offers favorable risk-reward.

Exhibit 30: PPoP growth under pressure as it moderated to 10.5% in 3QFY22



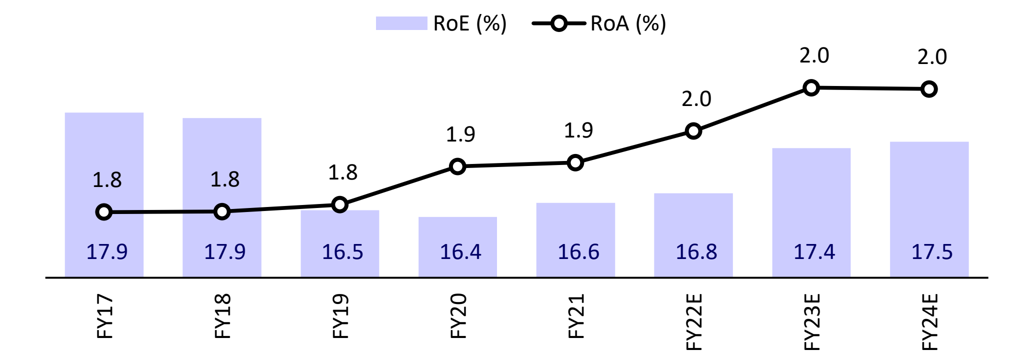
Source: Company, MOFSL

Exhibit 31: PPoP growth to pick up and report 17% CAGR over FY22-24E



Source: Company, MOFSL

Exhibit 32: Return ratios to remain healthy with RoA/RoE of 2.0%/17.5% in FY24E



Source: MOFSL, Company

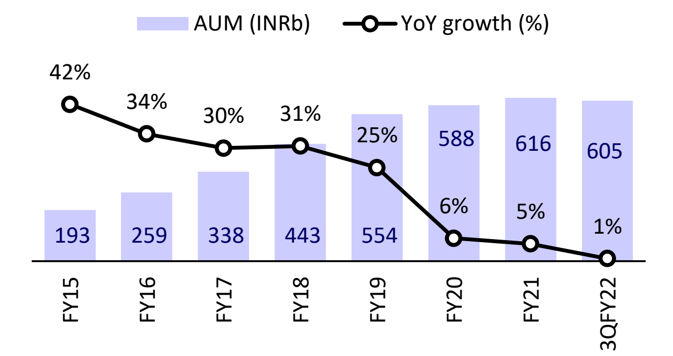
Subsidiaries: HDB's performance weak; HDFC Securities reports robust performance

HDB Financials – weak business performance; asset quality under pressure

HDB PAT down 61% YoY in FY21; however increased over 9MFY22

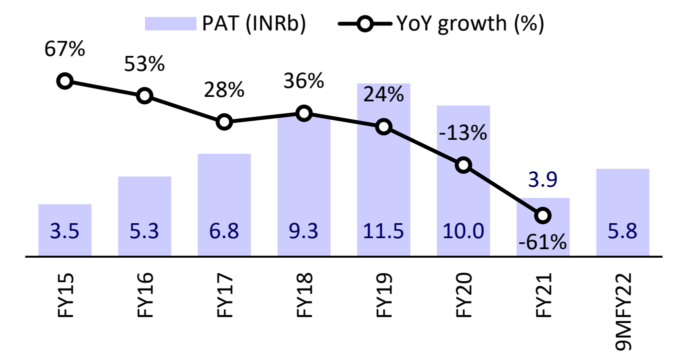
Performance for HDB Financials was adversely impacted since FY20 due to the pandemic. As a result, AUM growth moderated to 5% in FY21 and stood muted at 1% over 9MFY22 (v/s an average of ~29% over FY16–19), while PAT registered a decline of ~61% YoY to INR3.9b, because of high credit cost and lower growth. However, PAT improved to INR5.8b over 9MFY22 due to moderation in credit cost. GNPA ratio witnessed a sharp increase to 6.1% as on 9MFY22 while credit cost too witnessed a sharp rise to 5.2% (2.5% in FY20). This impacted the return ratios, with FY21 RoA/RoE at 0.6%/4.8%. Although HDB Financials remains well-capitalized with Tier I/CAR of 14.9%/20.3%, we remain watchful of its near-term performance given the challenging environment. Its asset quality could remain under pressure.

Exhibit 33: AUM growth muted over FY22YTD…



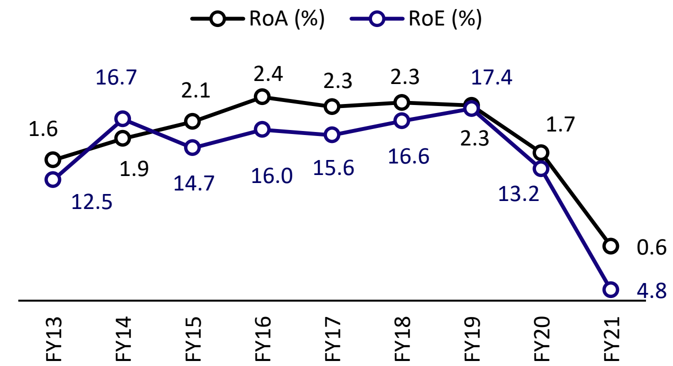
Source: MOFSL, Company

Exhibit 34: …while PAT rose to INR5.8b over 9MFY22



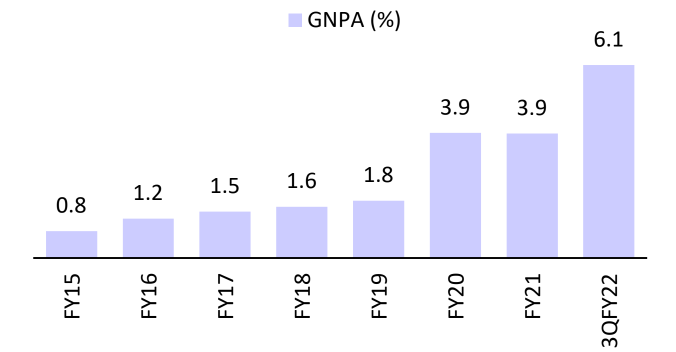
Source: MOFSL, Company

Exhibit 35: Return ratios suppressed further in FY21



Source: MOFSL, Company

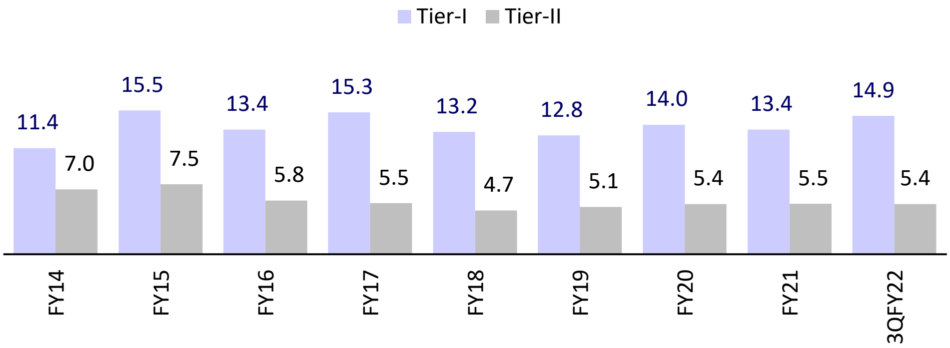
Exhibit 36: Asset quality ratio remained elevated



Source: MOFSL, Company

HDFC Bank unlike most large private peers has not raised capital over recent years and yet strengthened its capital ratios further

Exhibit 37: Capitalization level remained strong, with total CAR at 20.3%



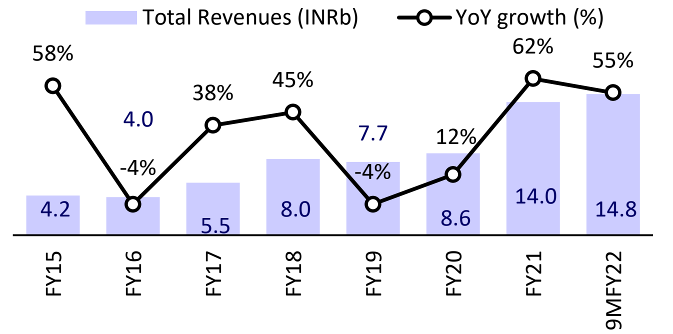
Source: MOFSL, Company

HDFC Securities – robust business performance; gaining momentum

PAT posts CAGR of 28% over FY16–21

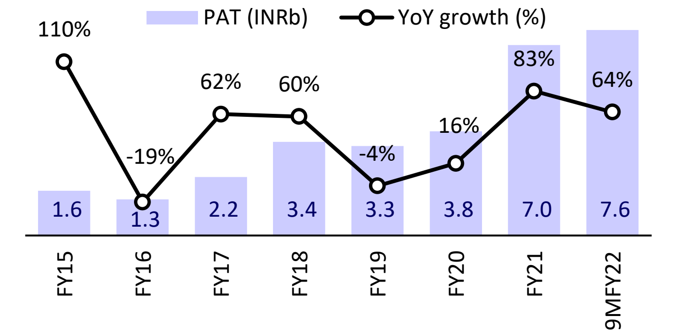
HDFC Securities posted a revenue/PAT CAGR of 28%/39% over FY16–21. Revenue/Earnings growth remained strong over 9MFY22 on large participation from the Retail segment, aided by the rising share of financial savings and the increasing formalization of the economy. Revenue was up 62% YoY to INR14b in FY21 (+55% YoY to INR14.8b in 9MFY22) and PAT rose 83% YoY to INR7b (+64% YoY to INR7.6b in 9MFY22). RoE expanded to ~52% (v/s 32% in FY20). The company has a customer base of 2.7m, with ~1m transacting customers, owing to which it is ranked among the top five broking houses. The focus on digitization continued, with the services being digitally accessed by customers increasing to 92% in FY21 (from 79% in FY20). For the mobile app, this increased to 50% (v/s 32%) over the same period. Owing to improved operating leverage, steady growth in new customers, and better market conditions, we expect it to report healthy earnings over the next few years.

Exhibit 38: Total income up 55% YoY over 9MFY22…



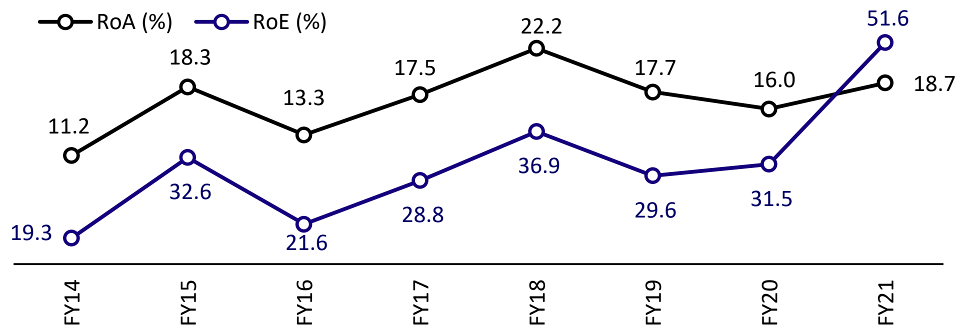
Source: MOFSL, Company

Exhibit 39: …with PAT growth robust at 64% YoY



Source: MOFSL, Company

Exhibit 40: Return ratios remained strong for HDFC Securities, with RoE at ~52% for FY21



Source: MOFSL, Company

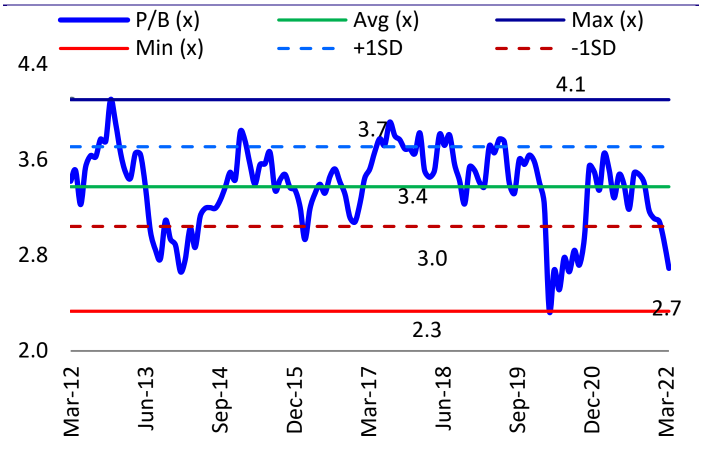
Strong earnings outlook; valuations attractive

- 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 and thus estimate loans to grow by 18% CAGR over FY22-24. 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 was stable. We expect a gradual improvement in margin due to 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. Hence, the bank is 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 at ~71%, which, along with a floating provision of INR14.5b and a 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% during FY22E-24E.
- **Retain BUY with a TP of INR2,000:** HDFCB continues to deliver strong business growth v/s peers and its business momentum has swiftly recovered to pre-COVID levels. This is propelled by a healthy pick-up in the Retail segment, while growth in Commercial and Rural Banking remains robust. We expect the margin trajectory to recover gradually over FY23 while the uptick in retail loan growth and unsecured products would be supportive of fee income trends. Asset quality ratios have improved, though the restructured book stands comparatively higher at 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 support NII and margin, which would drive profitability in the coming quarters. We estimate HDFCB to deliver ~18% PAT CAGR over FY22-24, with an RoA/RoE of 2.0%/17.5% in FY24. HDFCB is currently trading at an attractive valuation of 2.4x FY24E P/ABV, which offers favorable risk-reward. **We maintain our BUY rating with a TP of INR2,000 (premised on 3.4x FY24E ABV + INR127 from subsidiaries).**

Exhibit 41: SOTP-based pricing

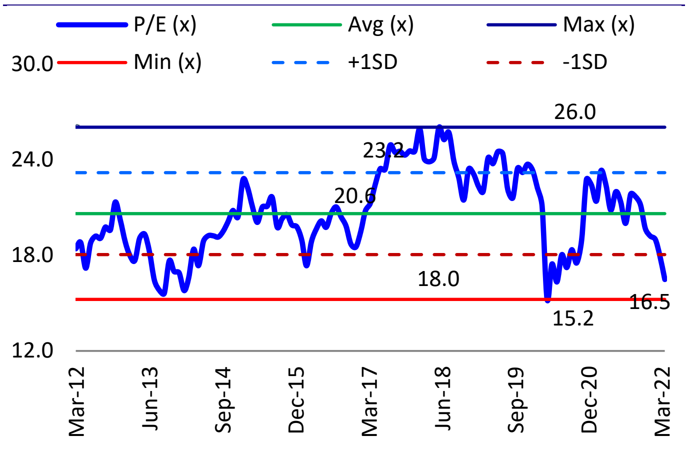
	Stake (%)	Total Value INR b	Total Value USD b	Value Per Share INR	% of Total Value	Rationale
HDFC Bank		**10,380.4**	**140.0**	**1,873**	**93.7**	❖ **3.4x FY24E ABV**
HDB Financial Services	95.0	555.1	7.5	101	5.0	❖ 4.5x FY24E Net worth
HDFC Securities	96.0	318.0	4.3	58	2.9	❖ 25x FY24E PAT
Total Value of Subs		**873.0**	**11.8**	**158**	**7.9**	
Less: 20% holding Disc		174.6	2.4	32	1.6	
Value of Subs (Post Holding Disc)		**698.4**	**9.4**	**127**	**6.3**	
Target Price		**11,078.9**	**149.5**	**2,000**		

Exhibit 42: One-year forward P/B



Source: MOFSL, Company

Exhibit 43: One-year forward P/E



Source: MOFSL, Company

Exhibit 44: Valuation trend over the past 3-5 years

		3 Year Average							5 Year Average						
P/B (x)	**Current**	**Avg.**	**Max**	**Min**	**+2SD**	**+1SD**	**-1SD**	**-2SD**	**Avg.**	**Max**	**Min**	**+2SD**	**+1SD**	**-1SD**	**-2SD**
HDFCB	2.7	3.3	3.8	2.3	4.0	3.6	2.9	2.5	3.4	3.9	2.3	4.1	3.8	3.0	2.7

Source: MOFSL, Company

Exhibit 45: Valuation trend over the past 10 years

		10 Year Average						
P/B (x)	**Current**	**Avg.**	**Max**	**Min**	**+2SD**	**+1SD**	**-1SD**	**-2SD**
HDFCB	2.7	3.4	4.1	2.3	4.0	3.7	3.0	2.7

Source: MOFSL, Company

Exhibit 46: DuPont Analysis: Return ratios to remain healthy

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
Net Interest Income	**4.21**	**4.16**	**4.18**	**4.05**	**3.96**	**3.86**	**3.95**	**4.00**
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
Non-Interest income	**1.56**	**1.58**	**1.53**	**1.68**	**1.54**	**1.61**	**1.64**	**1.64**
Total Income	**5.33**	**5.74**	**5.71**	**5.73**	**5.50**	**5.47**	**5.59**	**5.65**
Operating Expenses	**2.51**	**2.35**	**2.26**	**2.21**	**2.00**	**2.01**	**2.09**	**2.14**
Employee cost	0.82	0.71	0.67	0.69	0.63	0.63	0.65	0.67
Others	1.68	1.65	1.59	1.53	1.36	1.38	1.43	1.47
Operating Profits	**3.27**	**3.38**	**3.44**	**3.51**	**3.50**	**3.46**	**3.51**	**3.50**
Core operating Profits	**2.83**	**3.11**	**3.26**	**3.22**	**3.11**	**3.03**	**3.09**	**3.10**
Provisions	**0.46**	**0.61**	**0.65**	**0.88**	**0.96**	**0.85**	**0.80**	**0.80**
PBT	**2.82**	**2.77**	**2.79**	**2.64**	**2.54**	**2.61**	**2.71**	**2.71**
Tax	0.97	0.96	0.96	0.75	0.64	0.66	0.68	0.68
RoA	**1.85**	**1.81**	**1.83**	**1.89**	**1.90**	**1.95**	**2.03**	**2.03**
Leverage (x)	9.7	9.8	9.0	8.7	8.7	8.6	8.6	8.6
RoE	**17.9**	**17.9**	**16.5**	**16.4**	**16.6**	**16.8**	**17.4**	**17.5**

Financials and valuations

Income Statement (INRb)

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
Net Interest Income	**331.4**	**400.9**	**482.4**	**561.9**	**648.8**	**724.9**	**857.2**	**1,017.0**
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
Total Income	**454.4**	**553.2**	**658.7**	**794.5**	**900.8**	**1,027.4**	**1,214.1**	**1,434.6**
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	377.5	452.8	544.1
Pre Provision Profits	**257.3**	**326.2**	**397.5**	**487.5**	**573.6**	**649.9**	**761.3**	**890.5**
Growth (%)	20.4	26.8	21.8	22.6	17.7	13.3	17.1	17.0
Core PPP	**220.9**	**311.0**	**380.3**	**465.9**	**549.2**	**612.9**	**718.5**	**840.1**
Growth (%)	19.7	40.8	22.3	22.5	17.9	11.6	17.2	16.9
Provisions (exc. tax)	35.9	59.3	75.5	121.4	157.0	159.7	172.7	202.4
PBT	**221.4**	**267.0**	**322.0**	**366.1**	**416.6**	**490.1**	**588.6**	**688.1**
Tax	75.9	92.1	111.2	103.5	105.4	123.4	148.2	173.2
Tax Rate (%)	34.3	34.5	34.5	28.3	25.3	25.2	25.2	25.2
PAT	**145.5**	**174.9**	**210.8**	**262.6**	**311.2**	**366.8**	**440.5**	**514.9**
Growth (%)	18.3	20.2	20.5	24.6	18.5	17.9	20.1	16.9

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 & Surplus	855.6	1,057.8	1,486.6	1,704.4	2,031.7	2,335.8	2,710.0	3,158.6
Net Worth	**860.7**	**1,063.0**	**1,492.1**	**1,709.9**	**2,037.2**	**2,341.3**	**2,715.5**	**3,164.1**
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 Deposits	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 & 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**	**20,081.9**	**23,346.0**	**27,478.7**
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
Other Assets	422.3	368.8	466.5	539.3	459.3	927.8	1,234.7	1,540.3
Total Assets	**8,638.4**	**10,639.3**	**12,445.4**	**15,305.1**	**17,468.7**	**20,081.9**	**23,346.0**	**27,478.7**

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	73.3
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 (Exc. Tech. write off)	68.7	69.8	71.4	72.0	69.8	70.8	71.1	71.3

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**9.6**	**9.4**	**9.6**	**9.0**	**8.1**	**8.1**	**8.2**	**8.3**
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
Avg. Cost-Int. Bear. Liabilities	**5.5**	**4.9**	**5.2**	**5.0**	**4.1**	**4.1**	**4.0**	**4.0**
Avg. Cost of Deposits	5.3	4.6	4.8	4.9	4.0	3.9	3.8	3.8
Interest Spread	**4.2**	**4.5**	**4.4**	**4.0**	**4.0**	**4.0**	**4.2**	**4.3**
Net Interest Margin	**4.6**	**4.4**	**4.4**	**4.2**	**4.1**	**4.0**	**4.2**	**4.3**
Capitalisation Ratios (%)								
CAR	14.6	14.8	17.1	18.3	18.5	18.9	18.3	17.6
Tier I	12.8	13.3	15.8	17.0	17.3	17.8	17.4	16.8
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	2.0
Cost/Total Income	43.4	41.0	39.7	38.6	36.3	36.7	37.3	37.9
Cost/Core Income	45.8	42.2	40.7	39.7	37.3	38.1	38.7	39.3
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	31.3	31.3	31.2
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	17.4	17.5
RoA	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0
RoRWA	2.4	2.4	2.4	2.6	2.8	2.9	3.0	2.9
Book Value (INR)	167.9	204.8	273.9	311.8	369.5	424.7	492.6	574.0
Growth (%)	16.9	22.0	33.8	13.8	18.5	14.9	16.0	16.5
Price-BV (x)	**7.9**	**6.5**	**4.8**	**4.3**	**3.6**	**3.1**	**2.7**	**2.3**
Adjusted BV (INR)	165.4	193.9	262.8	300.3	356.8	411.1	476.3	555.1
Price-ABV (x)	**8.0**	**6.8**	**5.0**	**4.4**	**3.7**	**3.2**	**2.8**	**2.4**
EPS (INR)	28.4	33.9	39.6	48.0	56.6	66.5	79.9	93.4
Growth (%)	16.7	19.4	16.9	21.2	17.8	17.6	20.1	16.9
Price-Earnings (x)	**46.7**	**39.1**	**33.5**	**27.6**	**23.4**	**19.9**	**16.6**	**14.2**

NOTES

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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