

Strong growth; merger remains near term overhang

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 13.7 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q4FY22 Results: HDFC Bank reported a decent overall performance.

- Loans were up 20.8% YoY at ₹ 13.7 lakh crore; deposits up 16.8% YoY
- NII up 10% YoY, NIM down 10 bps QoQ at 4.0%, C/I at 38.3% vs. 37% QoQ
- PAT up 22.8% YoY at ₹ 10055 crore, driven by lower credit cost YoY
- GNPA fell 9 bps QoQ to 1.17%, restructured book at ~114 bps

What should investors do? HDFC Bank's share price has grown by over 70% in the past five years. We believe the merger could result in increased volatility. However, the recent correction provides a good entry opportunity considering the kind of strong and consistent franchise HDFC Bank has been.

- We remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We lower our target multiple on HDFC Bank at ~3x FY24E ABV & ₹ 50 for subsidiaries; thus reducing our TP from ₹ 2000 to ₹ 1650

Key triggers for future price performance:

- Strengthening of liability franchisee would aid in containing cost of fund in a rising interest rate scenario
- Focus on improving mix towards MSME should offset lending to better rated borrowers, rising corporate pie keeping margin in a tight band
- Building up of physical/digital infra to drive growth though merger related clarification to precede fundamentals in the near term

Alternate Stock Idea: Apart from HDFC Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970



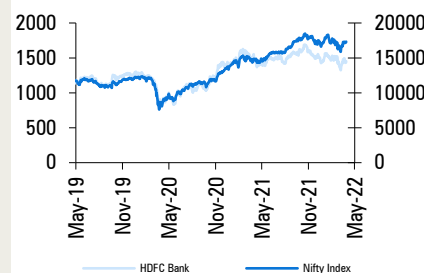
Particulars

Particulars	Amount
Market Capitalisation	₹ 745161 crore
52 week H/L	1724/1292
Networth	₹ 240093 crore
Face value	₹ 1

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	26.0	25.9	25.8	25.8	25.8
FII	39.8	39.4	38.2	37.5	35.6
DII	21.0	21.5	22.5	23.0	24.6
Others	13.3	13.3	13.4	13.8	14.1

Price Chart



Recent Event & Key risks

- Total provisions at 182% of reported GNPA levels.
- **Key Risk:** 1) Resurgence of pandemic could slow down growth 2) NIMs could come under pressure as mix shifts towards better rated borrowers

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	48,243	56,186	64,880	72,010	14%	84,295	98,763	17%
PPP	39,750	48,750	57,362	64,077	17%	74,046	85,295	15%
PAT	21,078	26,257	31,117	36,961	21%	43,149	51,173	18%
ABV (₹)	268.0	305.4	361.3	425.2		478.7	526.5	
P/E	34.5	27.9	23.7	20.0		17.2	14.5	
P/ABV	5.0	4.4	3.7	3.1		2.8	2.5	
RoA	1.8	1.9	1.9	1.9		2.0	2.1	
RoE	16.5	16.4	16.6	16.7		16.8	17.8	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Credit offtake impressive; margins steady

- Overall operating performance was decent with NII growth of 10.2% YoY and 2.3% QoQ to ₹ 18872 crore, NIMs were down 20 bps YoY and 10 bps QoQ. This was on account of a shift towards secured lending and better rated corporate borrowers, which generally give lower yields
- Other income was down 6.7% QoQ and flat YoY on account of lower treasury income. Fee income was up 12% YoY but was lower than loan growth
- C/I ratio inched up from 37% to 38.3% QoQ as cost slightly grew faster than income. Provisions for the quarter were up 10.6% YoY as the bank continued to add contingent provisions worth ₹ 1000 crore to its kitty. However, on a YoY basis, provisions declined 29%. Thus, as a result, PAT for the quarter came in at ₹ 10055 crore, up 22.8% YoY
- Asset quality improved sequentially as GNPA and NNPA ratio fell 9 bps and 5 bps QoQ to 1.17% and 0.32%, respectively, while restructured book was at 114 bps of loans vs. 134 bps in the previous quarter
- Business growth was strong in this quarter as loans were up 8.6% QoQ and 20.8% YoY to ₹ 13.7 lakh crore and traction was driven by corporate segment up 12% QoQ, agri up 15% QoQ and 9% uptick in MSME segment. Deposit growth was also healthy at 16.8% YoY and was driven by 22% YoY CASA uptick

Q4FY22 Earnings Conference Call highlights

- The bank opened all-time high of 24 lakh new liability accounts in Q4FY22 and 89.7 lakh during the year. Deposits growth has been led by strong CASA growth
- Advances growth has been led by substantial upswing in CRB followed by wholesale segment
- Prepayments from corporates dominated the start of the financial year. However, trends reversed during the quarter. Growth – Telecom sector, PSUs loan demand was decent. There was a pick-up in demand from manufacturing segment and NBFCs as well
- Commercial & Rural Banking growth has been aided by market share, expansion in semi-urban and rural areas, underlying strength in the economy. Yields in this segment were ~8.5%
- Retail growth momentum of the bank has been impacted by vehicle finance (impacted by supply chain issues) and cards. As the supply chain issues subsides, vehicle finance is expected to see a pick-up
- Cards - Card spends has seen 28% YoY. However, utilisation remains in the range of 0.7-0.8x of pre-Covid levels (improvement of 1 percentage point QoQ). Since lifting of the embargo, the bank has added 21.8 lakh credit cards. (8.2 lakh cards during Q4FY22)
- The bank has partnered with Airtel Payments Bank, Manipal Business Solutions and Indian Post Payment Bank to strengthen its distribution franchise
- NIM is reflective of a shift to higher rated segments and secured retail mix. The management expects it to move up in the range of 4.4-4.5% with an increase in retail lending, repo rate changes, though the recovery would be lagged
- The bank's restructured portfolio was at 114 bps (include 17 bps from other facilities to same borrower which are not restructured) and expects an impact of 10-20 bps on this portfolio

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		Rating	M Cap (₹ Bn)	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Axis Bank (AXIBAN)	670	970	Buy	2057	42.4	52.7	63.7	15.8	12.7	10.5	1.9	1.7	1.6	12.0	13.3	14.8
Federal Bank (FEDBAN)	91	100	Hold	197	9.0	10.5	12.9	10.5	8.9	7.3	1.2	1.1	1.0	10.8	11.6	13.1
HDFC Bank (HDFBAN)	1,337	1,650	Buy	7,45,161	66.7	77.9	92.3	19.4	16.6	14.0	3.0	2.7	2.5	16.7	16.8	17.8
IndusInd Bank (INDBA)	923	1150	Buy	689	59.5	82.4	101.0	14.9	10.8	8.8	1.5	1.5	1.3	10.1	13.1	15.1
Kotak Bank (KOTMAH)	1,815	2,150	Buy	3,498	43.0	49.6	57.8	41.0	35.5	30.5	5.1	4.4	3.8	12.6	12.9	13.1
CSB Bank (CSBBAN)	199	270	Buy	36	28.2	29.4	34.8	7.4	7.1	6.0	1.6	1.3	1.1	20.2	17.6	17.6

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
NII	18,872.7	18,834.7	17,120.2	10.2	18,443.5	2.3	Driven by healthy loan growth
NIM (%)	4.0	4.1	4.2	-20 bps	4.1	-10 bps	slight fall in margin due to shift towards better rated book
Other Income	7,637.1	7,825.2	7,593.9	0.6	8,183.6	-6.7	Flattish other income due to lower treasury gains
Net Total Income	26,509.8	26,659.8	24,714.1	7.3	26,627.0	-0.4	
Staff cost	3,144.6	2,946.7	2,678.9	17.4	3,154.4	-0.3	
Other Operating Expenses	7,008.2	7,152.7	6,502.4	7.8	6,696.7	4.7	Other opex up QoQ due to higher business activity
PPP	16,357.0	16,560.4	15,532.8	5.3	16,776.0	-2.5	
Provision	3,312.4	3,422.5	4,693.7	-29.4	2,994.0	10.6	Provisions increase sequentially as bank continues to add contingent provisions to its kitty
PBT	13,044.7	13,137.9	10,839.1	20.3	13,782.0	-5.3	
Tax	2,989.5	3,376.4	2,652.6	12.7	3,439.8	-13.1	
PAT	10,055.2	9,761.5	8,186.5	22.8	10,342.2	-2.8	PAT on yearly basis driven by lower credit cost

Key Metrics

GNPA	16,141	16,314	15,086	7.0	16,014	0.8	Largely stable asset quality
NNPA	4,408	4,777	4,555	-3.2	4,677	-5.8	
Advances	13,68,821	13,69,000	11,32,837	20.8	12,60,863	8.6	Loan growth driven by Corporate, Agri and MSME segment
Deposits	15,59,217	15,59,000	13,35,060	16.8	14,45,918	7.8	Boosted by CASA uptick

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	82,557.2	84,295.0	2.1	96295.6	98,763.3	2.6
Pre Provision Profit	72,941.4	74,046.0	1.5	85143.1	85,295.1	0.2
NIM calculated (%)	4.1	4.0	-2 bps	4.1	4.1	0 bps
PAT	42,998.0	43,149.1	0.4	50418.1	51,173.0	1.5
ABV (₹)	479.9	478.7	-0.3	527.2	526.5	-0.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY24E	FY22E
Credit growth (%)	17.3	17.7	17.5	17.7
Deposit Growth (%)	15.0	16.7	16.4	17.5
CASA ratio (%)	47.5	46.7	47.2	46.0
NIM Calculated (%)	4.0	4.1	4.1	4.1
Cost to income ratio (%)	36.6	36.6	36.4	35.9
GNPA (₹ crore)	17,747	19,637	17,955	21,602
NNPA (₹ crore)	8,178	10,343	7,275	9,311
Slippage ratio (%)	1.3	1.2	1.3	1.2
Credit cost (%)	0.9	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Interest Earned	120858	127753	152669	182786	
Interest Expended	55979	55744	68374	84023	
NII	64880	72010	84295	98763	
Growth (%)	15.5	11.0	17.1	17.2	
Non Interest Income	25205	29510	32518	35728	
Total Income	90084	101519	116813	134491	
Employee cost	10365	12039	13993	16395	
Other operating Exp.	22358	25403	28773	32801	
PPP	57362	64077	74046	85295	
Provisions	15703	15062	16128	16607	
PBT	41659	49015	57918	68689	
Taxes	10542	12054	14769	17516	
Net Profit	31117	36961	43149	51173	
Growth (%)	18.5	18.8	16.7	18.6	
EPS	56.4	66.7	77.9	92.3	

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Valuation					
No. of Equity Shares	551.3	554.2	554.2	554.2	
EPS (₹)	56.4	66.7	77.9	92.3	
BV (₹)	369.5	433.2	493.5	545.2	
ABV (₹)	361.3	425.2	478.7	526.5	
P/E	23.7	20.0	17.2	14.5	
P/BV	3.6	3.1	2.7	2.5	
P/ABV	3.7	3.1	2.8	2.5	
Yields & Margins (%)					
Net Interest Margins	4.1	4.0	4.0	4.1	
Yield on avg earning assets	7.7	7.0	7.3	7.6	
Avg. cost on funds	4.1	3.6	3.8	4.0	
Avg. cost of deposits	4.0	3.7	3.8	4.0	
Yield on average advances	8.9	8.6	8.3	8.6	
Quality and Efficiency (%)					
Cost / Total net income	36.3	36.9	36.6	36.6	
Credit/Deposit ratio	84.9	87.8	89.6	90.4	
GNPA	1.3	1.2	1.1	1.0	
NNPA	0.4	0.3	0.5	0.5	
ROE	16.6	16.7	16.8	17.8	
ROA	1.9	1.9	2.0	2.1	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Sources of Funds					
Capital	551	554	554	554	
Reserves and Surplus	203170	239538	272937	301594	
Networth	203721	240093	273491	302148	
Deposits	1335060	1559217	1792389	2091154	
Borrowings	135487	184817	157136	169782	
Other Liabilities & Provisions	72602	84407	85797	93852	
Total	1746871	2068535	2308815	2656936	
Applications of Funds					
Fixed Assets	4909	6084	5998	6520	
Investments	443728	455536	506072	574416	
Advances	1132837	1368821	1605735	1889846	
Other Assets	45926	85768	57325	44037	
Cash with RBI & call money	119470	152327	133685	142118	
Total	1746871	2068535	2308815	2656936	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total assets	14.1	18.4	11.6	15.1	
Advances	14.0	20.8	17.3	17.7	
Deposits	16.3	16.8	15.0	16.7	
Total Income	5.8	7.7	17.8	18.0	
Net interest income	15.5	11.0	17.1	17.2	
Operating expenses	6.6	14.4	14.2	15.0	
Operating profit	17.7	11.7	15.6	15.2	
Net profit	18.5	18.8	16.7	18.6	
Net worth	19.1	17.9	13.9	10.5	
EPS	17.9	18.1	16.7	18.6	

Source: Company, ICICI Direct Research

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