

Margins contracted; Earnings was in-line

**CMP: INR 1,465**

**Rating: Buy**

**Target Price: INR 1,864**

**Stock Info**

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	554
Mkt Cap (INR Cr)	8,12,339
52w H/L (INR)	1,724 / 1,292
Avg Yearly Vol (in 000')	7,452

**Shareholding Pattern %**

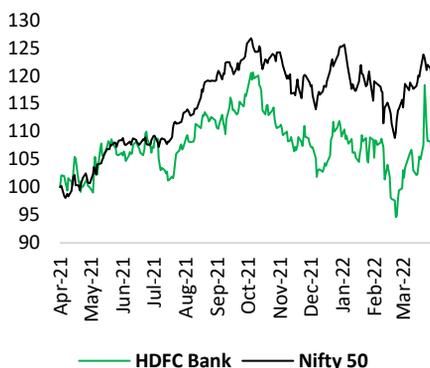
(As on March, 2022)

Promoters	25.8
FII	35.6
DII	24.6
Public & Others	14.0

**Stock Performance (%)**

	1m	3m	12m
HDFC Bank	-5.5	-4.1	4.6
Nifty 50	5.1	-4.3	20.5

**HDFC Bank Vs Nifty**



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**HDFC Bank during Q4FY22 has reported 23% YoY growth in profit at INR 10,055 cr was slightly higher than our estimate of INR 9,992 cr. NII growth for the quarter slowed down to 10% YoY/2% QoQ to INR 18,873 cr despite strong credit growth of 21% YoY. NIM of the bank declined by 10bps QoQ at 4.0%. Other income growth for the quarter was slower at 0.6% YoY/-6.7% QoQ at INR 7,637 cr. Due to low operating income growth and slightly higher other OPEX, operating profit growth came in lower at 5% YoY/-2.5% QoQ to INR 16,357 cr as compared to our estimate of INR 17,577 cr. Provision for the quarter declined by 29% YoY and increased by 11% QoQ at INR 3,312 cr. As a prudent strategy, Bank has created INR 1,000 cr contingent provision during the quarter and carries total cumulative (floating + contingent) provision of INR 11,136 cr (0.8% of loans). GNPA ratio improved by 9bps QoQ at 1.2%.**

**NIMs declined sequentially:** Core margin of the bank declined by 10 bps QoQ at 4% due to change in asset mix. Yield on advances declined by 20bps QoQ at 8.1% largely due to high growth in low yielding product i.e corporate lending. Wholesale growth outpaced retail and within retail, growth in higher yielding payments portfolios remained below normalized levels. Cost of funds improved further by 6 bps QoQ at 3.4%.

**Business momentum for the quarter was robust with strong growth in corporate lending:** Overall advances grew by 20.8% YoY (vs. 16.5% YoY in Q3FY22) due to better traction in Wholesale growth at 17% YoY/12% QoQ and retail credit growth at 15.2% YoY. Commercial and rural banking portfolio increased by 30% YoY. Within retail, Home loans grew by 18% YoY, LAP was up by 22% YoY, PL up by 17% YoY and payment products up by 14% YoY. Due to strong pickup in loan growth, market share of bank increased to 11% from 10% YoY. Deposit mobilization continues to remain strong. Bank has reported total deposits growth of 17% YoY/8% QoQ with CASA ratio at 48.2% vs. 47.1% QoQ.

**Slippages ratio was at 1.2% vs 1.6% QoQ; restructuring book declined:** GNPA/NNPA ratio declined by 9bps/5bps QoQ at 1.2%/0.3%. In absolute term, Slippage for the quarter declined from INR 4,600 cr to INR 4,000 cr QoQ. Restructured book declined sequentially at 114 bps vs. 137 bps in Q3FY22. Management continues to guide for 10-20 bps GNPA impact from this book. With additional contingency provision of INR 1,000 cr, bank holds total buffer of 0.8% of advances. Bank's subsidiary HDB Financial also reported 100 bps QoQ decline in stage 3 assets at 5%.

**Valuation & View:** HDFC bank has reported mixed performance during Q4FY22 as business momentum was strong while NII and PpOP came in lower than estimates. Increased share of lower yielding products has resulted into decline in margins while credit cost of the bank was lower due to higher addition of secured and safer assets. Momentum on business growth front leading to market share gain, adoption of digital capabilities and aggressive focus on liability profile will lead the bank to deliver steady state RoE profile of 17-18%. We marginally increase our estimate by 2-3% for FY23-24E and maintain our Buy rating on the stock with a revised target price of INR 1,864 (earlier INR 1,910), based on 3.4x FY24E P/ABV. At CMP, stock is trading at 2.7x to its FY24E ABV.

Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
NII	64,880	72,010	83,307	1,01,870
PPOP	57,362	64,077	70,865	85,235
PAT	31,117	36,961	42,307	51,474
BVPS (INR / Share)	369.5	433.0	490.2	559.8
NIM (%)	4.1%	4.0%	3.9%	4.0%
RoA (%)	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.6%	16.7%	16.5%	17.7%
P/ABV (x)	4.1	3.5	3.0	2.7

## Q4FY22 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Interest Income	33,449	32,468	30,424	3.0%	9.9%
Interest Expense	14,576	14,025	13,303	3.9%	9.6%
<b>Net Interest Income</b>	<b>18,873</b>	<b>18,443</b>	<b>17,120</b>	<b>2.3%</b>	<b>10.2%</b>
Non Interest Income	7,637	8,184	7,594	-6.7%	0.6%
<b>Total Income</b>	<b>26,510</b>	<b>26,627</b>	<b>24,714</b>	<b>-0.4%</b>	<b>7.3%</b>
Employee Costs	3,145	3,154	2,679	-0.3%	17.4%
Other Operating Expenses	7,008	6,697	6,502	4.7%	7.8%
Operating Expenses	10,153	9,851	9,181	3.1%	10.6%
<b>Pre-Provision Profit</b>	<b>16,357</b>	<b>16,776</b>	<b>15,533</b>	<b>-2.5%</b>	<b>5.3%</b>
Provisions	3,312	2,994	4,694	10.6%	-29.4%
<b>Profit Before Tax</b>	<b>13,045</b>	<b>13,782</b>	<b>10,839</b>	<b>-5.3%</b>	<b>20.3%</b>
Tax Expense	2,989	3,440	2,653	-13.1%	12.7%
<b>Net Profit</b>	<b>10,055</b>	<b>10,342</b>	<b>8,187</b>	<b>-2.8%</b>	<b>22.8%</b>
<b>Balance Sheet Analysis</b>					
<b>Deposits</b>	<b>15,59,217</b>	<b>14,45,918</b>	<b>13,35,060</b>	<b>7.8%</b>	<b>16.8%</b>
CASA Deposits	7,51,050	6,81,224	6,15,682	10.3%	22.0%
CASA (%)	48.2%	47.1%	46.1%	105bps	205bps
<b>Advances</b>	<b>13,68,821</b>	<b>12,60,863</b>	<b>11,32,837</b>	<b>8.6%</b>	<b>20.8%</b>
Total Assets	20,68,535	19,38,286	17,46,871	6.7%	18.4%
Capital Adequacy Ratio (%)	18.9%	19.5%	18.8%	-60bps	10bps
<b>Spread Analysis</b>					
Yield on Avg Advances (%)	8.1%	8.3%	<b>8.8%</b>	-20bps	-70bps
Yield on Avg Interest Earning Assets (%)	7.0%	7.1%	7.4%	-15bps	-39bps
Cost of Funds (%)	3.4%	3.5%	3.7%	-6bps	-27bps
NIM (%)	4.0%	4.1%	4.2%	-10bps	-20bps
<b>Asset Quality</b>					
Gross NPA	16,141	16,014	15,086	0.8%	7.0%
Net NPA	4,408	4,677	4,555	-5.8%	-3.2%
GNPA (%)	1.2%	1.3%	1.3%	-9bps	-15bps
NNPA (%)	0.3%	0.4%	0.4%	-5bps	-8bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	38.3%	37.0%	37.2%	130bps	115bps
C/D Ratio (%)	87.8%	87.2%	84.9%	59bps	294bps
RoA (%) (annualized)	1.9%	2.1%	1.9%	-19bps	7bps

Source: Arianth Research, Company Filings

### Key Concall Highlights

- The bank continued to add new liability relationships at a robust pace with 2.4 mn liability profile added in Q4FY22.
- Market share of bank in advances has improved from 10% to 11%. Also, market share in deposits improved from 8.8% to 9.5%.
- Loan growth witnessed strong momentum. Wholesale segment witnesses demand from the sectors like Telecom, Credit to NBFCs, PSUs and some manufacturing companies. Also, pre-payments in wholesale lending was lower in Q4FY22.
- Within retail, other than vehicle, most segments have seen strong momentum. There is a scope for retail loan growth improvement.
- The bank has issued 0.82 mn cards in Q4FY22 and 2.2mn new cards since the lifting of embargo on cards i.e 7 month of the current financial year. Cards business revolver though is still down 70-80% of pre-COVID levels.
- Bank has optimized additional liquidity and bought down LCR to 112%. Going forward, LCR expected to be in the range of 110-115%.
- Shift in asset mix from retail/unsecured to higher rated segments has continued impact on margins, without hurting risk adjusted NIM. Risk-adjusted spread has improved to pre-covid level of 3.5%.
- Bank has added 563 branches in Q4FY22 and 150 branches are in pipeline.
- Share of floating rate loans-54%, repo linked (29%).
- Restructuring book stood at 114bps in Q4FY22 vs. 137bps in Q3FY22. This includes 17bps of other facility of the same borrower which are not restructured but included. 37% of the customer has chosen to restructure only one of the facilities. In the remaining 63% - 41% is secured and 59% is unsecured.
- Growth in fee income (at 12% YoY/11% QoQ) was seen across products. 94% of fees was retail and 6% was corporate.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial reported profit of INR 427 cr vs INR 304 cr QoQ. As on Q4FY22, GNPA of the company stood at 5% vs. 6% QoQ. Total loan book was INR 61,326 cr as on Q4FY22. As on Dec'21, total CAR was at 20.2% with Tier 1 capital at 15.2%. HDB Financial has 1,374 branches across 989 cities.

### Break-up of Advances

in Cr.	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY
Personal Loans	1,40,127	1,33,399	1,19,291	5%	17%
Auto	1,00,463	96,426	92,051	4%	9%
Home Loans	83,056	78,992	70,178	5%	18%
Payment Products	76,757	73,305	67,411	5%	14%
LAP	62,248	57,736	51,195	8%	22%
Two Wheelers Loan	9,288	9,288	10,282	0%	-10%
Gold Loans	8,350	8,198	8,245	2%	1%
Other Retail Loans	51,479	48,407	42,997	6%	20%
Commercial & Rural Banking	4,20,191	3,84,195	3,20,528	9%	31%
Agriculture	64,545	56,031	51,188	15%	26%
Corporates	3,64,011	3,26,182	3,09,942	12%	17%
<b>Total</b>	<b>13,80,515</b>	<b>12,72,159</b>	<b>11,43,308</b>	<b>9%</b>	<b>21%</b>

Source: Company, Arianth Research

## Key Financials

INR Crores	FY 20	FY 21	FY 22	FY 23E	FY 24E
Interest Income	1,14,813	1,20,858	1,27,753	1,50,203	1,77,575
Interest Expense	58,626	55,979	55,744	66,896	75,705
<b>Net Interest Income</b>	<b>56,186</b>	<b>64,880</b>	<b>72,010</b>	<b>83,307</b>	<b>1,01,870</b>
Non interest income	23,261	25,205	29,510	33,541	34,315
Operating income	79,447	90,084	1,01,519	1,16,848	1,36,185
- Employee expense	9,526	10,365	12,032	13,808	15,004
- Other operating expense	21,172	22,358	25,411	32,175	35,946
Operating Expense	30,698	32,723	37,442	45,983	50,950
<b>PPOP</b>	<b>48,750</b>	<b>57,362</b>	<b>64,077</b>	<b>70,865</b>	<b>85,235</b>
Provisions	12,142	15,703	15,062	14,761	16,975
PBT	36,607	41,659	49,015	56,104	68,261
Tax Expense	10,350	10,542	12,054	13,797	16,787
<b>PAT</b>	<b>26,257</b>	<b>31,117</b>	<b>36,961</b>	<b>42,307</b>	<b>51,474</b>
Diluted EPS (INR)	47.89	56.44	66.65	76.29	92.82

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet (INR Crores)	FY20	FY21	FY22	FY23E	FY24E
<b>Source of Funds</b>					
Share capital	548	551	555	555	555
Reserves & Surplus	1,70,438	2,03,170	2,39,538	2,71,269	3,09,874
Networth	1,70,986	2,03,721	2,40,093	2,71,823	3,10,428
Borrowings	1,44,629	1,35,487	1,84,817	2,21,781	2,66,137
Deposits	11,47,502	13,35,060	15,59,217	18,08,380	20,96,998
Other liabilities & provisions	67,394	72,602	84,407	1,01,548	1,22,169
<b>Total Equity &amp; Liabilities</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>20,68,535</b>	<b>24,03,532</b>	<b>27,95,732</b>
<b>Uses of Funds</b>					
Cash & bank balances	86,619	1,19,470	1,05,811	1,64,260	1,90,845
Net investments	3,91,827	4,43,728	4,55,536	5,37,532	6,45,039
Loans & advances	9,93,703	11,32,837	13,68,821	16,28,897	19,38,387
Fixed assets	4,432	4,909	6,084	5,087	5,166
Other assets	53,931	45,926	1,32,284	67,755	16,295
<b>Total Assets</b>	<b>15,30,511</b>	<b>17,46,871</b>	<b>20,68,535</b>	<b>24,03,532</b>	<b>27,95,732</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
<b>Growth Rates</b>					
Advances (%)	21.3%	14.0%	20.8%	19.0%	19.0%
Deposits (%)	24.3%	16.3%	16.8%	16.0%	16.0%
Total assets (%)	23.0%	14.1%	18.4%	16.2%	16.3%
NII (%)	16.5%	15.5%	11.0%	15.7%	22.3%
Pre-provisioning profit (%)	22.6%	17.7%	11.7%	10.6%	20.3%
PAT (%)	24.6%	18.5%	18.8%	14.5%	21.7%
<b>B/S Ratios</b>					
Credit/Deposit (%)	86.6%	84.9%	87.8%	90.1%	92.4%
CASA (%)	42.2%	46.1%	48.2%	49.6%	51.0%
Advances/Total assets (%)	64.9%	64.8%	66.2%	67.8%	69.3%
Leverage - Total Assets to Equity	9.0	8.6	8.6	8.8	9.0
CAR (%)	17.1%	18.8%	18.9%	16.8%	16.4%
<b>Operating efficiency</b>					
Cost/income (%)	38.6%	36.3%	36.9%	39.4%	37.4%
Opex/total assets (%)	2.0%	1.9%	1.8%	1.9%	1.8%
Opex/total interest earning assets	2.3%	2.1%	2.1%	2.2%	2.0%
<b>Profitability</b>					
NIM (%)	4.2%	4.1%	4.0%	3.9%	4.0%
RoA (%)	1.9%	1.9%	1.9%	1.9%	2.0%
RoE (%)	16.4%	16.6%	16.7%	16.5%	17.7%
<b>Asset quality</b>					
Gross NPA (%)	1.3%	1.3%	1.2%	1.3%	1.3%
Net NPA (%)	0.4%	0.4%	0.3%	0.4%	0.4%
PCR (%)	75.0%	75.0%	75.0%	75.0%	75.0%
<b>Per share data / Valuation</b>					
EPS (INR)	47.9	56.4	66.7	76.3	92.8
BVPS (INR)	311.8	369.5	433.0	490.2	559.8
ABVPS (INR)	305.3	361.3	424.0	480.5	548.2
P/E (x)	30.6	26.0	22.0	19.2	15.8
P/BV (x)	4.7	4.0	3.4	3.0	2.6
P/ABV (x)	4.8	4.1	3.5	3.0	2.7

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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