Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

HDFC Bank (HDFCB IN)

Rating: BUY | CMP: Rs1,371 | TP: Rs1,740

July 6, 2022

Company Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	**BUY**		**BUY**	
Target Price	**1,740**		**1,740**	
NII (Rs. m)	8,19,802	9,88,590	8,32,963	9,80,223
% Chng.	*(1.6)*	*0.9*		
Op. Profit (Rs. m)	6,77,057	8,15,115	7,24,302	8,42,403
% Chng.	*(6.5)*	*(3.2)*		
EPS (Rs.)	69.4	84.3	75.5	88.5
% Chng.	*(8.0)*	*(4.8)*		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
NII (Rs bn)	649	720	820	989
Op. Profit (Rs bn)	574	641	677	815
PAT (Rs bn)	311	370	385	467
EPS (Rs.)	56.4	66.7	69.4	84.3
Gr. (%)	*17.9*	*18.1*	*4.2*	*21.4*
DPS (Rs.)	-	6.5	15.5	16.9
Yield (%)	-	*0.5*	*1.1*	*1.2*
NIM (%)	*4.1*	*3.9*	*3.8*	*3.9*
RoAE (%)	*16.6*	*16.7*	*15.1*	*16.2*
RoAA (%)	*1.9*	*1.9*	*1.7*	*1.8*
P/BV (x)	3.7	3.2	2.8	2.5
P/ABV (x)	3.8	3.2	2.9	2.5
PE (x)	24.3	20.6	19.7	16.3
CAR (%)	18.8	18.9	18.0	17.8

Key Data	HDBK.BO | HDFCB IN
52-W High / Low	Rs.1,725 / Rs.1,272
Sensex / Nifty	53,751 / 15,990
Market Cap	Rs.7,617bn/ $ 96,047m
Shares Outstanding	5,555m
3M Avg. Daily Value	Rs.14013.36m

Shareholding Pattern (%)

Promoter's	25.85
Foreign	37.47
Domestic Institution	22.97
Public & Others	13.71
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.5)	(10.9)	(10.7)
Relative	3.0	(1.2)	(12.1)

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Merger challenges transitory

Quick Pointers:

- Deposit growth of 20%/23% in FY23/24E to be achieved by RTD from existing branches, WTD and AH bonds; funding cost benefit accrue from FY24.
- CRR/SLR requirements may be fulfilled as HDFCB would keep surplus SLR. PSL shortfall factored in at 50%, could be lower.

We remain constructive on HDFCB as merging of two systemically important financial institutions would boost balance sheet size, access to a larger client base and cross sell opportunities. Our interaction with the management of HDFC Bank and HDFC Ltd reinforced our confidence in the ability of the merged entity to garner deposits, meet regulatory requirements and improve profitability. While we don't foresee any shortfall on CRR/SLR, a deficit of 50% is projected on PSL needs, although it could be lower.

NIM may initially dip post-merger but improve thereafter and core RoE might enhance over FY23E-25E from 15.1% to 16.8%. Due to lower NII and higher opex we trim our PAT for HDFCB in FY23E/24E by average ~6.4% and lower multiple to 3.0x from 3.2x. With combined core market cap at Rs9trn, valuation is attractive at 2.3x core FY24 ABV. We roll forward to Sep'24 core ABV and our TP is unchanged with SOTP based TP of Rs1740. Maintain BUY.

Deposit growth achievable; Execution a key: Banks's objective is to build a deposit base to replace HDFC Ltd's liabilities and capitalize on domestic growth opportunities. We expect deposits of the merged entity to grow by 20%/23% in FY23E/24E, that would largely depend on the growth strategy of HDFCB and ALM bucketing of HDFC Ltd. Although standalone bank would need to grow deposits by Rs3.2trn in FY23 (vs Rs2.24trn in FY22) it may not pose a challenge, as deposits can be garnered more aggressively from existing branches. Due to the merger, quantum of incremental liabilities that HDFCB may have to raise for HDFC Ltd. would be a summation of liabilities maturing in 1-year and additional asset growth required in FY24E. Raise could happen through a combination of RTD/WTD and affordable housing bonds.

No CRR/SLR impact; PSLC cost budgeted: Additional CRR/SLR for HDFCB merged may not be required, since HDFC Ltd. has adequate cash for CRR, while HDFCB may carry excess SLR to serve overall SLR needs. PSL requirement would be applicable within 12 months from effective merger date. For PSL we have budgeted 50% shortfall which may entail a cost. However actual shortfall if any would be lower, as major CRB portfolio of HDFCB and 50% of HDFC Ltd's assigned portfolio qualify for PSLC. Post-merger, 4000+ SURU branches of HDFCB may also start sourcing home loans and further support PSL.

Certain adjustments to capital; RoE to mean revert post FY23: On assets side, a portion of HDFC Ltd. loans (5-7%) may not form part of the merged entity (which would release capital and create additional liquidity). Further, investment of the corporation in HDFCB (Rs141bn) would also be reduced from equity. Although, NIM of the combined entity may compress initially post-merger and may retrace back in FY24/25E (since liabilities of HDFC Ltd. would be replaced with bank deposits), it will help in reducing funding cost. Hence core RoE of HDFCB merged could enhance from 15.1% to 16.8% over FY23-25E.

Dissecting the financial impact of merger

Impact on share capital and reserves

We recently met the managements of HDFC Bank (HDFCB) and HDFC Ltd. (corporation) to clarify various aspects of the merger and allay some investor concerns. From an analytical perspective, we understand that there could be two ways to look at the merger, a) one would be to view the merged entity as a whole in terms of regulatory/funding requirements or b) to see HDFC Ltd. as a standalone entity with regard to regulation, growth and consequent fund raising required.

We have adopted the second approach, as HDFCB is a well-functioning institution under RBI norms. Also prior to the merger, bank will strengthen its balance sheet so that there are no funding or regulatory impediments.

With RBI and exchanges (NSE, BSE) approving the merger, the process could be expedited and we envisage the merger to fructify by FY23 end. Hence we **assume 31st March'23 to be the merger date (day-0) for our calculations** and exchange ratio of 42:25 would be applied to shareholding, prevailing as on the aforesaid date.

Assuming that equity capital of both entities may not change materially, we have applied this exchange ratio capital position as on 31st March'22. Consequently, equity capital of the merged entity would be Rs7.43bn as illustrated in Exhibit 1.

Exhibit 1: Post-merger Shareholding

Merger Impact on Shareholding	Mn
Existing HDFCB Shares (FV = Rs.1)	5,546
Existing HDFC Ltd Shares (FV = Rs.2)	1,813
Shares to HDFC Ltd shareholders based on Swap Ratio (42:25)	3,046
Total Shares	**8,592**
Less: Shares held by HDFC Ltd in HDFC Bank (21%)	1,165
Shares post-merger	**7,427**

Source: Company, PL

While the table above shows adjustment to share capital, holding of corporation in HDFCB would also have to be knocked-off from merged net worth. Amount of investment in HDFCB reflecting in the corporation is Rs141.2bn, while shares extinguished are Rs1.17bn (as reflected above). Hence amount to be reduced from equity would be Rs140.1bn.

Other adjustments to the merged net-worth would be to reduce assignment income that appears in the books of HDFC Ltd. while dividend payable by bank in the normal course to HDFC Ltd. to the extent of its shareholding (21%) would be added back to equity.

Allaying liability side concerns

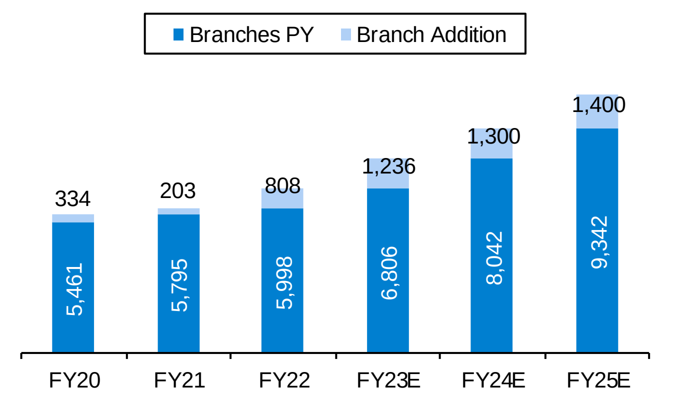
Glide path of deposits for the merged entity

Investors are concerned whether the combined entity will be able to deliver strong deposit growth plus how would branch and employee accretion progress. Quantum of deposits to be raised over the medium term, would largely depend on standalone bank's growth strategy and ALM bucketing of HDFC Ltd. We have assumed that RBI would allow liabilities of HDFC Ltd. to be grandfathered in books of the bank.

Aspiration to double the book in 5 years: As mentioned on Analyst Day, bank aspires to double its book in next 4-5 years, which would have been the strategy, irrespective of the merger announcement. We expect deposit growth to supersede loan growth over the medium term, as focus is to build a deposit base to replace HDFC Ltd liabilities post maturity and capitalise on domestic growth opportunities. The bank also wants to focus on deeper penetration in tier-3,4 cities and participate in varied Government businesses. Currently, 60% of these locations are serviced by PSU or Co-op banks.

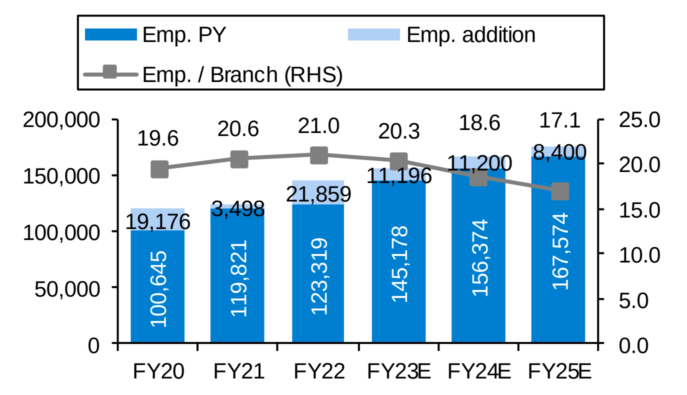
Aggressive branch expansion: HDFCB has guided to add 1500-2000 branches per annum to keep infrastructure ready for future growth. We expect the bank to add ~1200-1300 branches in FY23/24E. While branch addition target may seem steep, management interaction suggests that size of the branch may be smaller which may entail a lower operating cost thereby aiding faster break-even. With smaller branches, staff requirement would also be lower and hence employees per branch may reduce from 21 in FY22 to 19 in FY24E. Additionally, HDFC Ltd. employees would be absorbed in the branch, which may eventually lower employee requirement per branch.

Exhibit 2: Deeper penetration to lead branch expansion



Source: Company, PL

Exhibit 3: Employee addition to be in tandem with branches

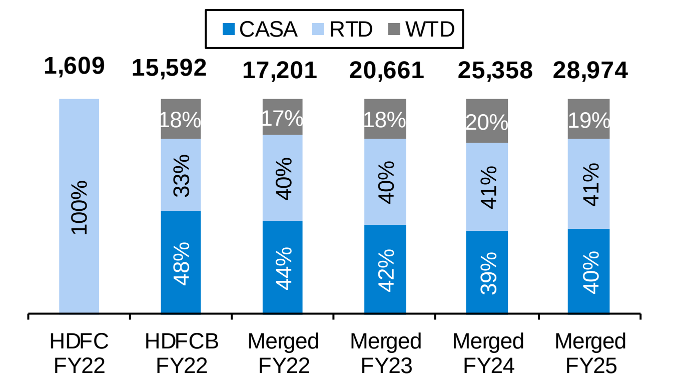


Source: Company, PL

Given this impending merger and focus on deeper penetration, HDFC bank may get a tad aggressive on deposits growth in FY23/24. We expect ~20% growth in FY23E (both standalone and merged) with deposit accretion of ~23% YoY for FY24E. Although concerns on deposit growth are justified due to higher base, achieving a 20%/23% growth in FY23/24 may not be challenging.

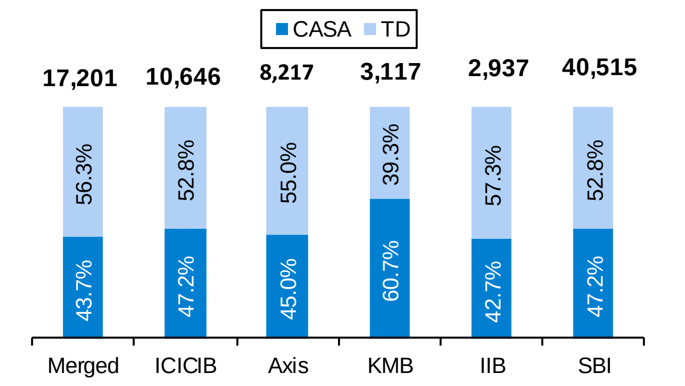
Deposit growth may be achievable: Basis our assumptions, standalone bank needs to grow its deposits by Rs3.3trn in FY23 (vs Rs2.24trn in FY22). Additionally, this would tantamount to Rs1.03trn, which could be partly raised by sourcing deposits of ~Rs8mn per branch per month on its FY22 branch base. This would total to ~Rs625bn or 60% of the requirement. Balance Rs375bn could be fulfilled by a combination of RTD from new branches and wholesale deposits (WTD).

Exhibit 4: Deposits - mix to shift towards term deposits



Source: Company, PL. Note: Bold nos are Total Deposits(Rs. bn)

Exhibit 5: Term deposit share a tad higher than most peers



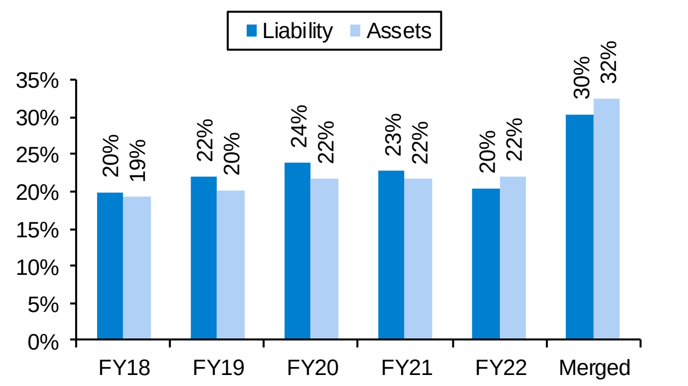
Source: Company, PL Note: Bold nos are Total Deposits (Rs. bn), based on FY22 nos

ALM to remain well matched

Post-merger date i.e. 31st March FY23, liabilities of HDFC Ltd. are assumed to be grandfathered to the bank's balance sheet and deposit growth of the merged entity in FY24E would hinge on proportion of total liabilities and assets that may mature within 1 year. Basis historical maturity patterns, ~22% of assets and ~20% of liabilities usually mature within a year.

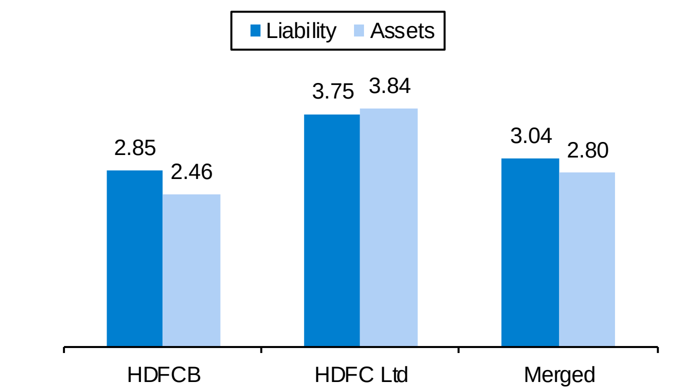
Due to the merger, quantum of incremental liabilities that HDFC Bank may have to raise would be a summation of 1) liabilities maturing in 1-year (excluding portion of deposits that may roll over to the bank) and 2) additional asset growth of the corporation required in FY24E.

Exhibit 6: HDFC Ltd's ALM well matched in <1yr bucket



Source: Company, PL

Exhibit 7: Avg. asset duration of merged entity to increase



Source: Company, PL Note: Calc. on FY22 nos

Exhibit 8: Incremental funding (Rs mn)

Deposits of FY23 <1yr	5,46,113
75% may move (a)	4,09,585
Borrowings of FY23 Maturing <1yr (b)	5,68,168
Incr. asset growth in FY23 (c)	7,76,103
Net additional requirement in FY24 (a+b+c)	17,53,855
20% Affordable Housing Bonds	3,50,771
80% to be raised via TDs	14,03,084
70% RTD	9,82,159
30% WTD	4,20,925

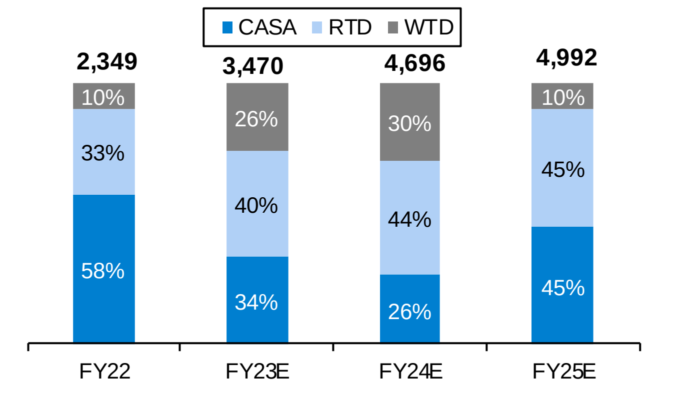
Source: Company, PL

Progression of liability funding and mix

Funding needs to be met with a mix of RTD/WTD/AF bonds: The working in exhibit 8 explains our position and hence the merged entity may have to additionally raise Rs1.75trn in liabilities, which may be through a combination of RTD/WTD and affordable housing bonds (AH). Benefit of raising AH bonds is that CRR/SLR requirements don't apply to them, while if these funds are deployed for infra projects related to AH, it would qualify for PSLC. We expect affordable housing bonds to fund 20% or Rs351bn of this Rs1.75trn requirement, while remaining Rs1.4trn would have a mix of 70:30 in favour of RTD:WTD. Bank loans and NCDs of HDFC Ltd. would be replaced by HDFCB deposits as and when they mature.

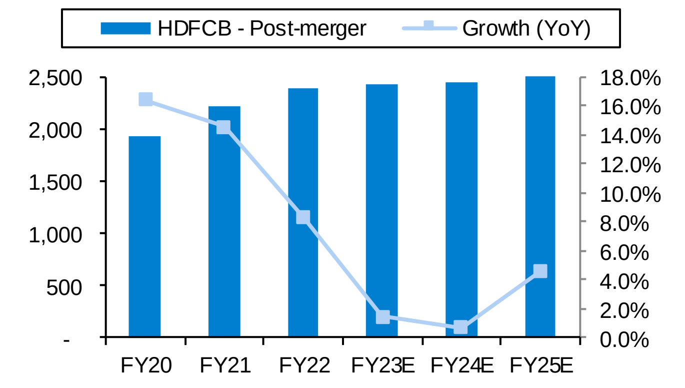
Current focus on 3-year TD accretion: A certain chunk of depositors with HDFC Ltd. may choose to discontinue with the bank owing to rate differential, which we have budgeted in our estimates. As most of the incremental funding would be sourced from RTD/WTD, the bank is focusing on garnering 3-yr TD. CASA ratio is expected to decline for the bank over FY22-24E although CASA would be build back in the medium term, as and how branch productivity improves.

Exhibit 9: Funding need to be met with RTD/WTD in FY23/24



Source: Company, PL Note: Bold nos. are total deposits(Rs bn)

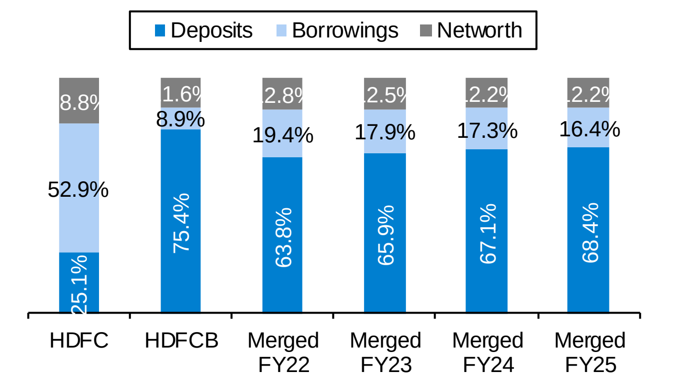
Exhibit 10: Deposit per branch momentum to slow down



Source: Company, PL

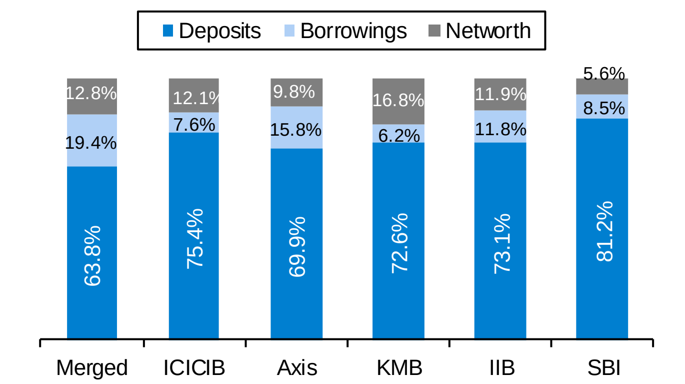
After merger the liabilities mix would also change with contribution of borrowings increasing and that of deposits reducing. As liabilities of corporation mature, deposit share in the combined entity would increase. Owing to higher capital base of HDFC Ltd., CAR of the combined entity would be higher to most peers.

Exhibit 11: Liability profile of the merged entity



Source: Company, PL

Exhibit 12: Liability profile compared to peers



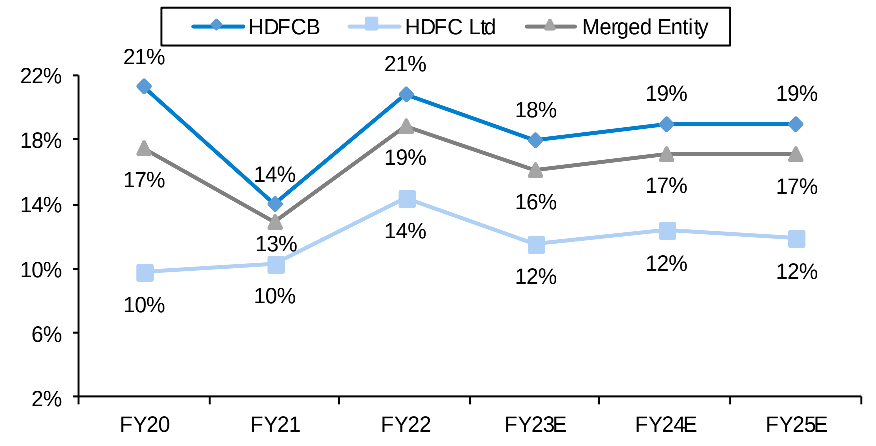
Source: Company, PL Note: Based on FY22 nos

Asset side changes and loan growth trend

Certain loans may not form part of the merged entity: A portion of HDFC Ltd. loans would not form part of the merged entity. Unsecured loans in form of promoter financing would be restricted for limits/enhancements within the bank setup. Land financing may be more calibrated. However, developer financing would continue as asset quality issues have subsided and this space has become more organised post implementation of GST and RERA. Mr. Rangan, ED at HDFC Ltd. will be a part of the Board and would oversee the developer financing vertical.

Riskier assets to not be on-boarded: Effectively 5-7% of loans may not be carried forward to the bank. However, repayment of these loans would generate liquidity for the combined entity. We haven't explicitly budgeted this asset run down, as it may not impact projections materially.

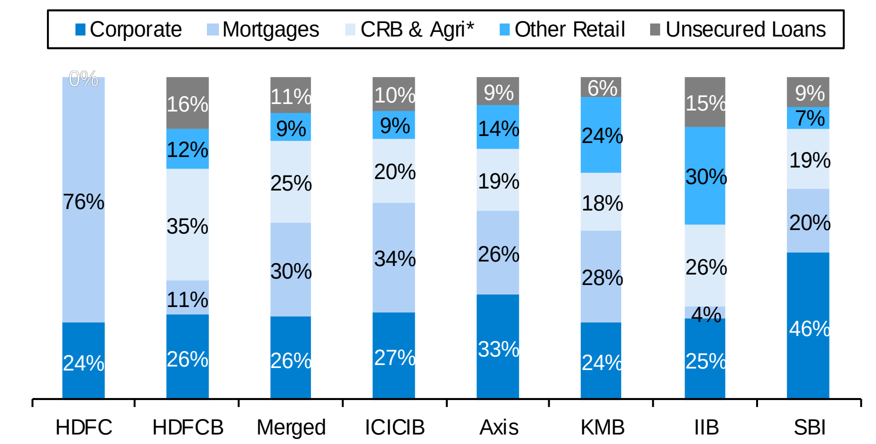
Exhibit 13: Growth for HDFB merged could be ~17% over FY22-25E



Source: Company, PL

Housing contribution to increase: Post-merger, share of housing loans for HDFCB would increase from 11% to 30% and hence would be comparable to its peers especially ICICI Bank. Guidance on individual segments is: CRB & Retail are expected to grow faster than corporate and may double within 3-5 years, while corporate would double within 5 years.

Exhibit 14: Mortgage share of HDFCB merged may increase to 30%



*Source: Company, PL Note: Based on FY22 nos. *CRB & Agri incl. SME/ Business Banking & Rural portfolio for peers*

Regulatory requirements

Basis management interaction and our calculations, CRR/SLR requirements for the corporation may be immaterial.

- HDFC Ltd. already has sufficient cash on its balance sheet to suffice for CRR. In case there is any shortfall, the bank will raise additional cash.
- On SLR front while the corporation may have a shortfall, it would be met by excess SLR that HDFCB carries.

The tables below show CRR/SLR calculations for HDFC Ltd.

Exhibit 15: Excess CRR to be met internally

HDFC Ltd. CRR	FY23
HDFC Ltd. Liabilities	57,08,675
Aff. Housing bonds	9,00,000
Interbank borrowings	14,81,500
NDTL	33,27,175
CRR required @4.5%	1,49,723

Source: Company, PL

Exhibit 16: SLR requirements may also be fulfilled

Total Liabilities	57,08,675
Aff. Housing bonds	9,00,000
NDTL	48,08,675
SLR required @18% (a)	**8,65,562**
G-Sec with HDFC Ltd. (b)	3,76,870
Excess SLR with HDFCB (c)	7,72,902
SLR available (b+c)	**1,149,772**

Source: Company, PL

PSL requirement would be applicable within 12 months from the effective merger date i.e. by 31st March'24. Management expects that the merged entity could achieve its PSL requirements as ~70% of CRB portfolio of HDFC Bank and 40% of assigned portfolio of HDFC Ltd. qualify for PSLC; Additionally, PSL available with HDFC Ltd. is Rs250bn.

Moreover, currently only ~2000 branches source home loans and post-merger the additional 4000 plus branches situated in SURU locations may also start sourcing home loans to support PSL requirements. We have budgeted a PSL shortfall of 50%, however it could be lower. Generally, PSLC entails a cost of 0.5-2.0%; last PSLC raise was at 1.7%. We have assumed a cost of 2% in our estimates.

Exhibit 17: PSL to impact profitability by 3% in 1st-year post merger

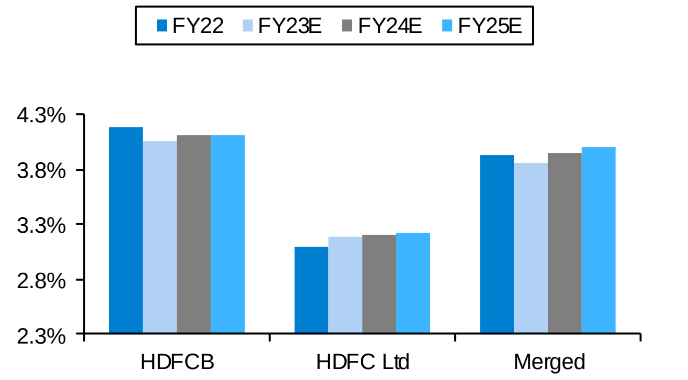
PSL	Rs mn
Total loans	63,27,478
Aff. Housing assets	9,20,000
ANBC base for PSL	54,07,478
PSL @40%	21,65,263
PSL available with HDFC	3,00,000
PSL to be generated	18,65,263
PSL @50% to be met	9,32,631
PSLC @50% purchased	9,32,631
Cost to P/L	18,653

Source: Company, PL

Profitability to enhance from FY24E

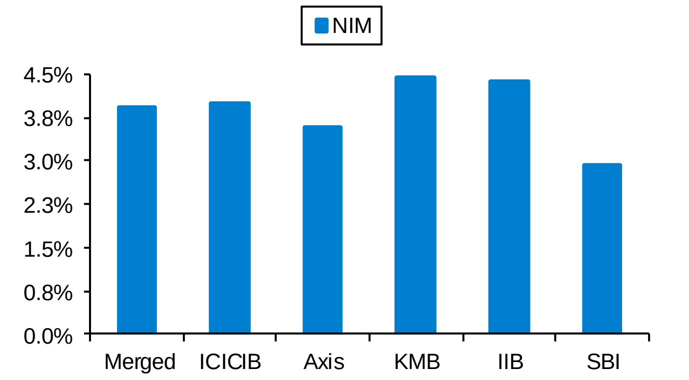
CoF differential to aid NIM reach pre-merger levels: As stated earlier ~20% of assets and liabilities of HDFC Ltd. would mature within 1-yr of the merger date. While yield differential between both entities is not substantial, the gap in cost of funds is material at 200bps+. Hence as liabilities of the corporation mature and are replaced, funding cost benefit would start accruing to these replaced liabilities. As per management, initial benefit would be lower as TD accretion would be higher than CASA which could reverse later as CASA accretion increases. We expect of the NIM of combined entity may compress immediately after the merger from 3.93% in FY22 to 3.87% in FY23; it may retrace back and improve to 3.94% in FY24.

Exhibit 18: NIM may decline immediately post-merger



Source: Company, PL

Exhibit 19: NIM would be in-line with other peers



Source: Company, PL Note: Based on FY22 nos

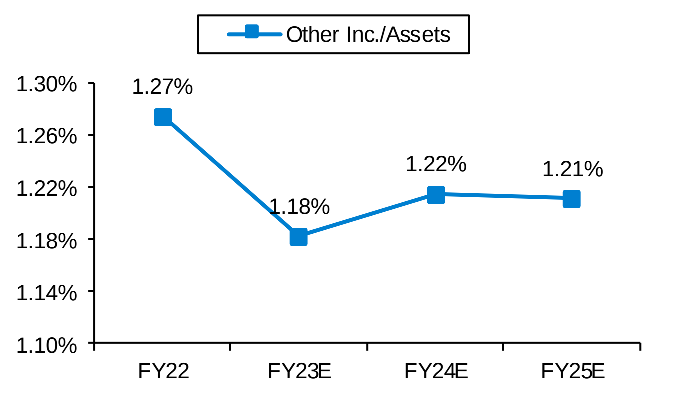
Certain adjustments would also be made to other income. Assignment income that is booked in HDFC Ltd.'s books would be knocked off. Secondly, dividend income of HDFC Ltd. would be reduced to an extent received from the bank, which would be added to equity of the merged entity as discussed above. There could be some benefits and disadvantages owing to reporting differences since HDFCB financials are basis IGAAP, while that of the corporation are based on INDAS. However, net impact would be adjusted directly through reserves.

Exhibit 20: Trend in profitability metrics

Percent (%)	FY22 HDFC Ltd	FY22 HDFCB	FY22 Merged	FY23E Merged	FY24E Merged	FY25E Merged
Yield on IEA	7.95	7.43	7.56	8.22	8.82	9.01
Cost of funds	5.68	3.47	3.97	4.75	5.30	5.41
NIM	**3.10**	**4.19**	**3.93**	**3.85**	**3.94**	**4.01**
Core other inc./assets	0.21	1.38	1.05	1.07	1.13	1.12
Other Inc./Assets	0.42	0.17	0.20	0.08	0.09	0.10
Cost/income	11.20	38.08	34.13	36.90	38.31	39.21
Opex/Avg.assets	**0.31**	**1.97**	**1.55**	**1.66**	**1.82**	**1.89**
Provision costs	0.37	1.20	0.96	0.87	0.85	0.85
Core RoA	**1.76**	**1.82**	**1.78**	**1.69**	**1.76**	**1.77**
Core RoE	**15.09**	**15.88**	**16.17**	**15.13**	**15.89**	**16.80**
RoA	2.27	1.94	1.97	1.80	1.81	1.82
RoE	12.00	16.66	15.30	14.21	15.04	15.86

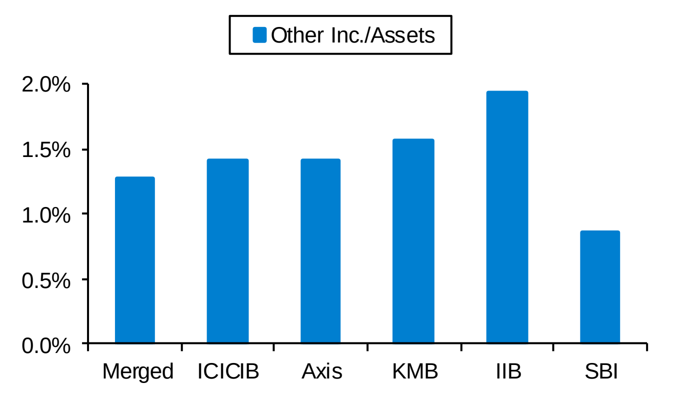
Source: Company, PL

Exhibit 21: Other income trajectory for the merged entity



Source: Company, PL

Exhibit 22: Other income to avg. assets to lag peers



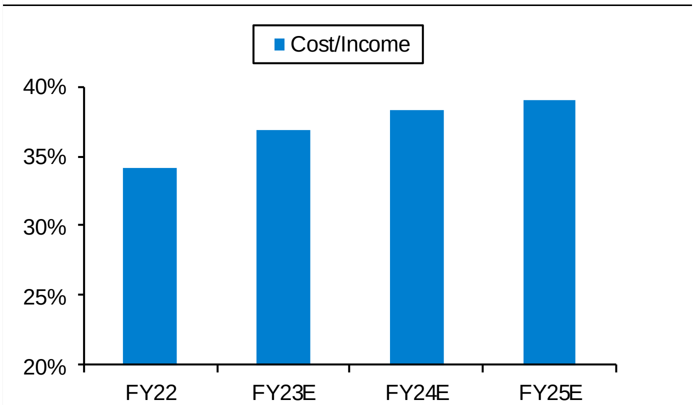
Source: Company, PL Not: Based on FY22 nos

Cost/income to aid profitability: On opex side (as discussed) branch and employee addition would be aggressive in the medium term and we expect opex to rise by a CAGR of ~25% over FY22-24E for combined entity (incl. PSLC cost). Management interaction suggests that the merger may not entail significant impact of integration costs, owing to following reasons:

- Corporation's business is a low transacting one with smaller base, as EMI transactions happen only once a month.
- Currently, HL as a product is being offered by the Corporation, hence technology needs to be on-boarded by the Bank. Thus, technology integration cost would be minimal.
- On staff cost, all employees of HDFC Ltd would become a part of the Bank as they specialise in HL. Hence training cost for employees would not be incurred or would not be material.
- On branch rationalization, there would be an overlap of 20%, meaning 20% of HDFC Ltd.'s branches would be present in the same locality as HDFCB. Such branches might be converted to service outlets or back office centres.

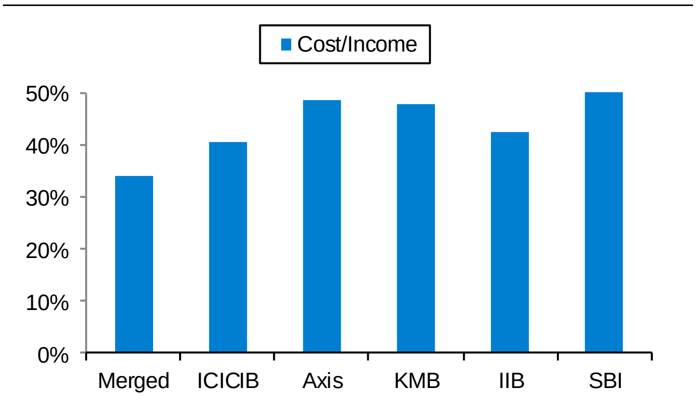
Hence the merger might entail an additional cost, but it may not materially impact cost-to-income on combined basis. Cost-to-income ratio of the Bank & Corporation are tabulated below, showing clear advantage to the merged entity.

Exhibit 23: Cost/Income for merged entity



Source: Company, PL

Exhibit 24: Cost/Income to be best in-class



Source: Company, PL Note: Based on FY22 nos.

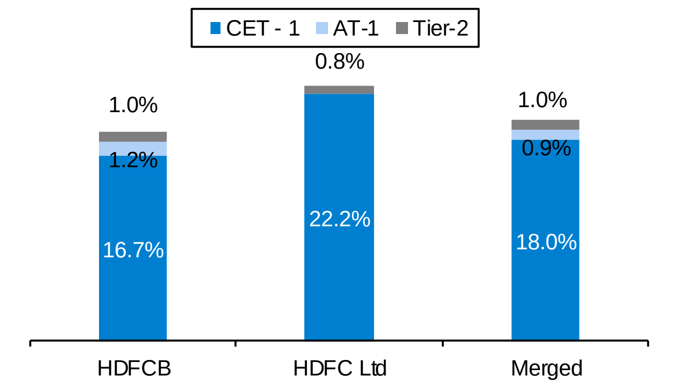
Capital adequacy and asset quality

Capital adequacy

CRAR to remain stable: Based on discussions with the management and our workings, capital Adequacy would remain stable post-merger. Considering FY22 workings, combined entity's CRAR would be 20.2% compared to 18.9% for HDFCB and 23% in case of HDFC Ltd. We have reduced cross holdings to the tune of Rs141bn from CET-1 Capital.

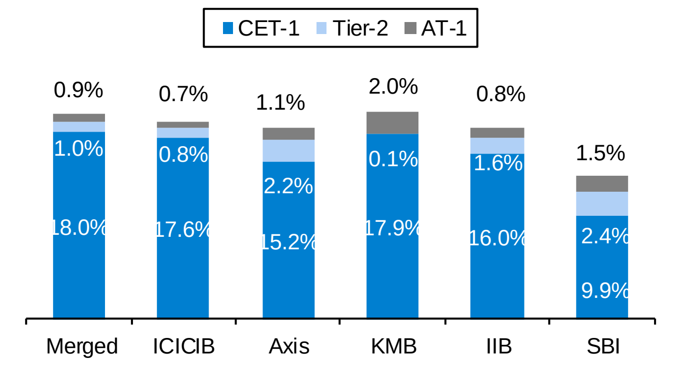
Capital utilization may improve as riskier assets rundown: As stated in the note above, 5-7% loans of the corporation may not be on-boarded by the bank, comprising of promoter and land financing. Hence this could reduce RWA and enhance CET-1 and CRAR.

Exhibit 25: CRAR would remain stable post merger



Source: Company, PL Note: based on FY22 nos

Exhibit 26: CRAR to be in-line with peers

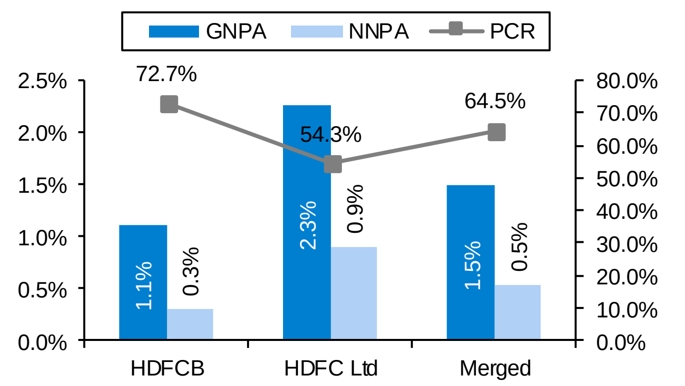


Source: Company, PL Note: Based on FY22 Nos

Asset quality

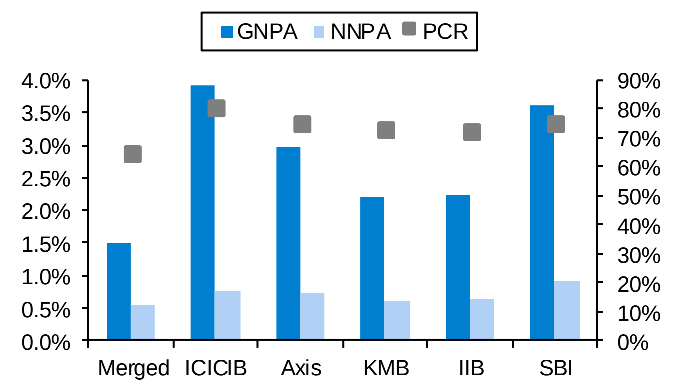
GNPA/NNPA of HDFCB are one of the best in class with controlled slippages (<1% annualized) and its buffer contingency provisions would continue to provide cushion against any shocks. While HDFC Ltd's asset quality remained steady during pandemic, it may improve over the medium term. On a combined basis GNPA would rise for the bank with a decline in PCR.

Exhibit 27: PCR to remain in comfortable



Source: Company, PL Note: Based on FY22 nos

Exhibit 28: NPAs best in class, though PCR may lag peers



Source: Company, PL Note: Based on FY22 nos.

Exhibit 29: Comparative analysis based on FY22 financials

Particulars (Rs Mn)	HDFC	HDFCB	Merged	ICICIB	Axis	KMB	IIB	SBI
Balance Sheet								
Total assets	6,409	20,685	26,949	14,113	11,752	4,294	4,020	49,876
Deposits	1,609	15,592	17,201	10,646	8,217	3,117	2,937	40,515
Advances	5,549	13,688	19,237	8,590	7,077	2,713	2,391	27,340
Investments	686	4,555	5,101	3,102	2,756	1,006	710	14,814
Borrowings	4,995	1,848	5,236	1,072	1,851	265	473	4,260
Net worth	1,203	2,401	3,459	1,705	1,152	720	477	2,801
Assets/Equity (x)	5.3	8.6	7.8	8.3	10.2	6.0	8.4	17.8
LDR (%)	344.8	87.8	111.8	80.7	86.1	87.0	81.4	67.5
CASA ratio (%)	0.0	48.2	43.7	48.7	45.0	60.7	42.7	43.8
CAR (%)	23.0	18.9	19.9	19.2	18.5	20.0	18.4	13.8
CET-1 (%)	22.2	16.7	18.0	17.6	15.2	17.9	16.0	9.9
AT-1 (%)	0.0	1.2	0.9	0.7	1.1	2.0	0.8	1.5
Tier-2 (%)	0.8	1.0	1.0	0.8	2.2	0.1	1.6	2.4
Growth (YoY %)								
Loans	14.4	20.8	18.9	17.1	15.2	21.3	12.4	11.6
NII	14.4	11.0	11.6	21.7	13.3	9.6	10.9	9.0
Deposits	7.2	16.8	15.8	14.2	17.7	11.3	14.6	10.1
PPOP	8.0	11.7	10.8	7.8	-3.7	-1.3	9.5	5.2
Core PPOP	12.2	21.8	14.4	23.7	-1.0	2.0	-7.4	10.0
PAT growth	14.3	18.8	17.5	44.1	97.7	19.8	62.6	55.2
Core PAT	21.6	34.2	23.5	97.3	144.8	25.1	22.3	129.7
Profitability (%)								
Yield on IEA	8.0	7.4	7.6	7.3	7.3	7.2	9.0	6.7
Cost of funds	5.7	3.5	4.0	3.5	3.7	3.2	4.9	3.6
NIM	3.1	4.2	3.9	4.0	3.6	4.5	4.4	2.9
Other inc./avg assets	0.7	1.5	1.3	1.4	1.4	1.6	1.9	0.9
Core Other Inc./avg. assets	0.2	1.4	1.1	1.2	1.3	1.6	1.2	0.8
Cost/Income	9.8	36.9	33.8	40.5	48.8	48.0	42.7	53.3
Opex/ Avg assets	0.3	2.0	1.5	2.0	2.2	2.7	2.5	1.8
Provisions	0.4	1.1	1.0	1.0	1.0	0.3	2.8	0.8
Core RoE	15.1	16.4	15.7	14.7	11.1	12.7	4.7	16.3
Core RoA	1.8	1.9	1.8	0.0	1.1	2.1	0.6	0.0
RoE	12.0	16.7	15.1	15.0	12.0	12.2	10.2	13.0
RoA	2.3	1.9	2.0	1.8	1.2	2.1	1.6	0.7
Asset Quality (%)								
GNPA	2.3	1.1	1.5	3.9	3.0	2.2	2.2	3.6
NNPA	0.9	0.3	0.5	0.8	0.7	0.6	0.6	0.9
PCR	54.3	72.7	62.8	80.9	74.9	73.2	72.3	75.0
Slippage	1.3	2.2	1.3	2.9	3.2	1.8	4.7	1.0
NNPA / Equity	4.9	1.8	3.0	4.1	4.9	2.4	3.2	10.0
Valuation (Basis FY24)								
EPS	98.7	84.3	66.4	16.5	59.3	42.0	103.4	50.9
BVPS	669.9	553.0	465.7	287.6	442.2	445.9	740.7	343.9
ABVPS	622.8	542.0	451.8	275.0	416.4	433.1	718.3	308.7
P/E	22.5	16.3	18.3	18.6	11.1	31.4	7.7	9.4
P/BV	1.0	2.5	2.3	2.1	1.5	3.1	1.1	0.9
P/ABV	1.2	2.5	2.4	2.2	1.6	3.2	1.1	1.0

Source: Company, PL

SOTP based TP at Rs.1740 (3.0x core Sep-24 ABV and Rs. 174 for subsidiaries)

Exhibit 30: PAT estimates lower on margin compression and higher opex

Change in Estimates (Rs mn)	Earlier estimates		Revised estimates		*% Change*	
	FY23E	FY24E	FY23E	FY24E	*FY23E*	*FY24E*
Net interest income	832,963	980,223	819,802	988,590	*(1.6)*	*0.9*
Operating profit	724,302	842,403	677,057	815,115	*(6.5)*	*(3.2)*
Net profit	418,521	490,724	385,093	467,351	*(8.0)*	*(4.8)*
Loan Growth (%)	16.0	18.0	18.0	19.0	*2.0*	*1.0*
Credit Cost (bps)	100.0	98.0	101.5	100.3	*0.3*	*2.3*
EPS, Rs.	75.5	88.5	69.4	84.3	*(8.0)*	*(4.8)*
ABVPS, Rs.	475.7	543.8	475.9	542.0	*0.1*	*(0.3)*
Price target, Rs.	**1,740**		**1,740**		**-**	
Recommendation	**BUY**		**BUY**			

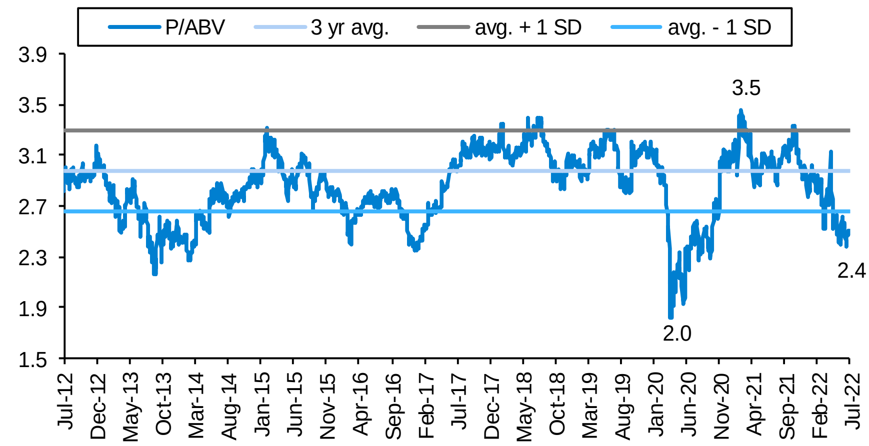
Source: PL

Exhibit 31: SOTP based TP at Rs.1740

Value per share (Rs)	Holding (%)	Multiple	Basis	Mar-24E
HDFC Bank		**3.0x**		**1,584**
Subsidiaries / Others				
Life insurance	51.0	1.0	M-Cap	82
AMC	52.7	1.0	Mcap	28
Financials	95.0	2.5x	Mar-22 PAT	27
Ergo	51.0	41x	Mar-22 PAT	14
HSL	96.0	10x	Mar-22 PAT	13
Bandhan Bank	9.0	1.0x	Mcap	5
HDFC Credila	100.0	2.5x	Mar-22 PAT	5
Total subsidiaries' value				**174**
% contribution of Subsidiaries				*10*
Hold –Co Discount		10%		**17**
Total fair value per share				**1,740**

Source: PL

Exhibit 32: HDFCB's one year forward P/ABV trends



Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Int. Earned from Adv.	9,48,345	9,85,120	12,71,307	16,53,822
Int. Earned from invt.	2,32,143	2,60,461	3,33,619	4,47,097
Others	4,682	6,426	6,680	7,239
Total Interest Income	12,08,582	12,77,531	16,41,050	21,39,877
Interest Expenses	5,59,787	5,57,435	8,21,248	11,51,287
Net Interest Income	**6,48,796**	**7,20,096**	**8,19,802**	**9,88,590**
Growth(%)	*13.4*	*12.7*	*12.8*	*20.6*
Non Interest Income	2,52,049	2,95,099	3,25,240	3,91,985
Net Total Income	9,00,845	10,15,195	11,45,042	13,80,576
Growth(%)	*5.8*	*7.7*	*25.0*	*28.8*
Employee Expenses	1,03,648	1,20,317	1,50,446	1,68,648
Other Expenses	2,10,554	2,38,107	3,17,539	3,96,813
Operating Expenses	3,27,226	3,74,422	4,67,985	5,65,461
Operating Profit	**5,73,618**	**6,40,773**	**6,77,057**	**8,15,115**
Growth(%)	*17.7*	*11.7*	*5.7*	*20.4*
NPA Provision	1,14,502	1,01,194	1,43,835	1,72,537
Total Provisions	1,57,029	1,50,618	1,62,227	1,90,314
PBT	**4,16,590**	**4,90,155**	**5,14,830**	**6,24,801**
Tax Provision	1,05,425	1,20,541	1,29,737	1,57,450
Effective tax rate (%)	*25.3*	*24.6*	*25.2*	*25.2*
PAT	**3,11,165**	**3,69,614**	**3,85,093**	**4,67,351**
Growth(%)	*18.5*	*18.8*	*4.2*	*21.4*

Balance Sheet (Rs. m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Face value	1	1	1	1
No. of equity shares	5,513	5,546	5,546	5,546
Equity	5,513	5,546	5,546	5,546
Networth	20,37,208	24,00,929	26,94,697	30,66,933
Growth(%)	*19.1*	*17.9*	*12.2*	*13.8*
Adj. Networth to NNPAs	45,548	44,077	55,300	61,511
Deposits	1,33,50,602	1,55,92,174	1,88,60,054	2,25,62,399
Growth(%)	*16.3*	*16.8*	*21.0*	*19.6*
CASA Deposits	61,56,822	75,10,491	86,74,372	99,14,327
% of total deposits	*46.1*	*48.2*	*46.0*	*43.9*
Total Liabilities	**1,74,68,705**	**2,06,85,351**	**2,44,28,067**	**2,89,04,444**
Net Advances	1,13,28,366	1,36,88,209	1,61,52,087	1,92,20,984
Growth(%)	*14.0*	*20.8*	*18.0*	*19.0*
Investments	44,37,283	45,55,357	55,54,305	66,94,941
Total Assets	**1,74,68,705**	**2,06,85,351**	**2,44,28,067**	**2,89,04,444**
Growth (%)	*14.1*	*18.4*	*18.1*	*18.3*

Asset Quality

Y/e Mar	FY21	FY22	FY23E	FY24E
Gross NPAs (Rs m)	1,50,860	1,61,410	1,91,338	2,12,040
Net NPAs (Rs m)	45,548	44,077	55,300	61,511
Gr. NPAs to Gross Adv.(%)	*1.2*	*1.1*	*1.1*	*1.0*
Net NPAs to Net Adv. (%)	*0.4*	*0.3*	*0.3*	*0.3*
NPA Coverage %	*69.8*	*72.7*	*71.1*	*71.0*

Profitability (%)

Y/e Mar	FY21	FY22	FY23E	FY24E
NIM	4.1	3.9	3.8	3.9
RoAA	1.9	1.9	1.7	1.8
RoAE	16.6	16.7	15.1	16.2
Tier I	17.6	17.9	17.2	16.9
CRAR	18.8	18.9	18.0	17.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Interest Income	3,04,830	3,13,534	3,24,681	3,34,487
Interest Expenses	1,34,740	1,36,690	1,40,246	1,45,760
Net Interest Income	**1,70,090**	**1,76,844**	**1,84,435**	**1,88,727**
YoY growth (%)	*8.6*	*12.1*	*13.0*	*10.2*
CEB	38,854	49,459	50,751	56,303
Treasury	-	-	-	-
Non Interest Income	62,886	74,008	81,836	76,371
Total Income	**3,67,716**	**3,87,542**	**4,06,517**	**4,10,858**
Employee Expenses	27,656	29,671	31,544	31,446
Other expenses	53,949	63,108	66,967	70,082
Operating Expenses	81,604	92,779	98,511	1,01,528
Operating Profit	**1,51,371**	**1,58,073**	**1,67,760**	**1,63,570**
YoY growth (%)	*18.0*	*14.4*	*10.5*	*5.3*
Core Operating Profits	1,45,361	1,51,318	1,57,295	1,63,973
NPA Provision	42,197	22,864	18,206	17,782
Others Provisions	48,308	39,247	29,940	33,124
Total Provisions	48,308	39,247	29,940	33,124
Profit Before Tax	**1,03,063**	**1,18,826**	**1,37,820**	**1,30,447**
Tax	25,766	30,483	34,398	29,895
PAT	**77,297**	**88,343**	**1,03,423**	**1,00,552**
YoY growth (%)	*16.1*	*17.6*	*18.1*	*22.8*
Deposits	**1,34,58,293**	**1,40,63,433**	**1,44,59,181**	**1,55,92,174**
YoY growth (%)	*13.2*	*14.4*	*13.8*	*16.8*
Advances	**1,14,76,516**	**1,19,88,374**	**1,26,08,628**	**1,36,88,209**
YoY growth (%)	*14.4*	*15.5*	*16.5*	*20.8*

Key Ratios

Y/e Mar	FY21	FY22	FY23E	FY24E
CMP (Rs)	1,371	1,371	1,371	1,371
EPS (Rs)	56.4	66.7	69.4	84.3
Book Value (Rs)	370	433	486	553
Adj. BV (70%)(Rs)	361	425	476	542
P/E (x)	24.3	20.6	19.7	16.3
P/BV (x)	3.7	3.2	2.8	2.5
P/ABV (x)	3.8	3.2	2.9	2.5
DPS (Rs)	-	6.5	15.5	16.9
Dividend Payout Ratio (%)	-	*9.7*	*22.3*	*20.0*
Dividend Yield (%)	-	*0.5*	*1.1*	*1.2*

Efficiency

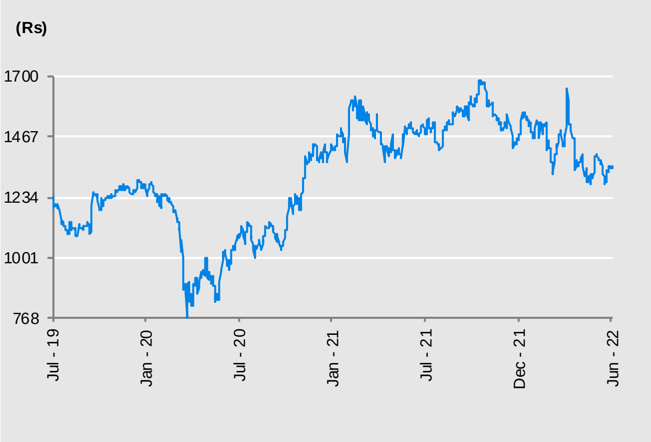
Y/e Mar	FY21	FY22	FY23E	FY24E
Cost-Income Ratio (%)	*36.3*	*36.9*	*40.9*	*41.0*
C-D Ratio (%)	*84.9*	*87.8*	*85.6*	*85.2*
Business per Emp. (Rs m)	205	207	230	255
Profit per Emp. (Rs lacs)	26	26	25	29
Business per Branch (Rs m)	4,401	4,617	4,642	4,673
Profit per Branch (Rs m)	55	58	51	52

Du-Pont

Y/e Mar	FY21	FY22	FY23E	FY24E
NII	3.96	3.77	3.63	3.71
Total Income	5.50	5.32	5.08	5.18
Operating Expenses	2.00	1.96	2.07	2.12
PPoP	3.50	3.36	3.00	3.06
Total provisions	0.96	0.79	0.72	0.71
RoAA	1.90	1.94	1.71	1.75
RoAE	16.61	16.66	15.11	16.22

Source: Company Data, PL Research

Price Chart	Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Jun-22	BUY	1,740	1,395
2	17-Apr-22	BUY	1,740	1,465
3	09-Apr-22	BUY	2,000	1,515
4	04-Apr-22	BUY	2,000	1,657
5	17-Jan-22	BUY	1,870	1,545
6	12-Jan-22	BUY	1,870	1,566
7	06-Oct-21	BUY	1,870	1,615
8	19-Jul-21	BUY	1,870	1,522

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,300	2,172
2	Axis Bank	BUY	940	780
3	Bank of Baroda	BUY	125	95
4	Can Fin Homes	BUY	800	642
5	City Union Bank	BUY	170	127
6	DCB Bank	BUY	120	78
7	Federal Bank	BUY	135	91
8	HDFC	BUY	2,900	2,264
9	HDFC Bank	BUY	1,740	1,395
10	ICICI Bank	BUY	950	748
11	IDFC First Bank	UR	-	42
12	IndusInd Bank	BUY	1,297	979
13	Kotak Mahindra Bank	Accumulate	1,925	1,776
14	LIC Housing Finance	BUY	435	354
15	Punjab National Bank	BUY	50	38
16	State Bank of India	BUY	600	445

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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