

MTM losses took a hit on PPOP; Margins remained stable

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CMP: INR 1,362

Rating: Buy

Target Price: INR 1,847

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Cr)	555
Mkt Cap (INR Cr)	7,56,659
52w H/L (INR)	1,724 / 1,272
Avg Yearly Vol (in 000')	7,452

Shareholding Pattern %

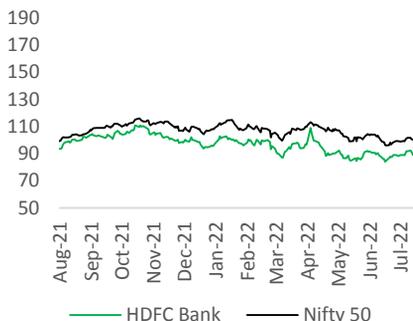
(As on March, 2022)

Promoters	25.7
FII	32.3
DII	27.1
Public & Others	14.9

Stock Performance (%)

	1m	3m	12m
HDFC Bank	4.2	-7.0	-10.4
Nifty 50	2.3	-8.2	0.8

HDFC Bank Vs Nifty



Raju Barnawal

raju.b@arihantcapital.com

022 67114870

HDFC Bank during Q1FY23 has reported 19% YoY growth and 8.5% sequential decline in net profit at INR 9,196 cr, was slightly lower than our estimate of INR 9,308 cr impacted due to MTM and trading loss of INR 1,312 cr. NII growth for the quarter was at 14.5% YoY/3% QoQ to INR 19,481 cr was lower than our estimate of INR 19,785 cr. NIM of the bank was stable at 4% QoQ. Other income growth was lower at 2% YoY/-16% QoQ to INR 6,388 cr, due to treasury loss. Core fee income of the bank increased by 38% YoY to INR 5,360 cr. Due to low operating income growth on account of lower other income, PPOP growth was impacted and it grew by 1.5% YoY/-6% QoQ to INR 15,368 cr. PPOP, excluding trading and Mark to Market losses, grew by 14.7% YoY. Due to MTM loss resulting into lower other income growth, cost to income ratio of the bank increased from 38.3% to 40.6% on a sequential basis. Provision for the quarter declined by 34% YoY/4% QoQ to INR 3,188 cr. Bank continue to carry total cumulative (floating + contingent) provision of INR 11,081 cr (0.8% of loans).

Margin was stable QoQ: Core margin of the bank remained stable at 4% on a sequential basis. Yield on advances during the quarter increased by 18bps QoQ at 8.3% while cost of funds increased by 11bps YoY at 3.6%. Full impact of repricing of the increased lending rate will be reflected in the coming quarter as there is 3-6 month cycle for the repricing. Bank has slightly increased time deposits rate over the last 1-2 months.

Business momentum for the quarter was robust with pick up in retail lending: Overall advances grew by 21.6% YoY (vs. 20.8% YoY in Q4FY22) due to better traction in retail credit growth at 21.7% YoY/5% QoQ. Commercial and rural banking portfolio increased by 29% YoY. Within retail, Home loans grew by 22% YoY, LAP was up by 26% YoY, PL up by 23% YoY and payment products up by 27% YoY. Wholesale portfolio of the bank increased by 16% YoY and flat QoQ. Deposit mobilization continues to remain strong. Bank has reported total deposits growth of 19% YoY/3% QoQ with CASA ratio at 45.8% vs. 48.2% QoQ.

Slippages ratio increased from 1.3% to 2.1% due to Agri portfolio: GNPA/NNPA ratio increased by 11bps/3bps respectively at 1.3%/0.4% QoQ. In absolute term, Slippage for the quarter increased from INR 4,000 cr to INR 7,200 cr QoQ with slippage ratio at 2.1%. The increase in GNPA was mainly due to slippages in agri segment. Excluding agri, GNPA was at 1.03% vs. 1.01% QoQ. Restructured book declined sequentially from 114 bps to 77bps at INR 10,750 cr. Credit cost of the bank declined from 96bps to 91bps on a sequential basis.

Valuation & View: Q1FY23 performance of the bank was marked by treasury loss resulting into lower operating income. However, Core operating profit growth of the bank was healthy at 15% YoY and margin of the bank was stable. Given the sharp movement in interest rates, bank has recorded treasury loss but this is not worrisome as it will not have credit cost impact. 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 16-17%. We marginally reduce our FY23-24 estimate by 3-4% and maintain our Buy rating on the stock with a revised target price of INR 1,847 (earlier INR 1,864), based on 3.4x FY24E P/ABV.

Particulars (INR Cr)	FY21	FY22	FY23E	FY24E
NII	64,880	72,010	84,318	1,03,615
PPOP	57,362	64,077	68,168	83,108
PAT	31,117	36,961	40,274	49,869
BVPS (INR / Share)	369.5	433.0	487.4	554.9
NIM (%)	4.1%	4.0%	3.9%	4.0%
RoA (%)	1.9%	1.9%	1.8%	1.9%
RoE (%)	16.6%	16.7%	15.8%	17.3%
P/ABV (x)	3.8	3.2	2.9	2.5

Q1FY23 - Quarterly Performance (Standalone)

(in INR Cr)

Income Statement (INR Cr.)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Interest Income	35,172	33,449	30,483	5.2%	15.4%
Interest Expense	15,691	14,576	13,474	7.6%	16.5%
Net Interest Income	19,481	18,873	17,009	3.2%	14.5%
Non Interest Income	6,388	7,637	6,289	-16.4%	1.6%
Total Income	25,870	26,510	23,297	-2.4%	11.0%
Employee Costs	3,500	3,145	2,766	11.3%	26.6%
Other Operating Expenses	7,002	7,008	5,395	-0.1%	29.8%
Operating Expenses	10,502	10,153	8,160	3.4%	28.7%
Pre-Provision Profit	15,368	16,357	15,137	-6.0%	1.5%
Provisions	3,188	3,312	4,831	-3.8%	-34.0%
Profit Before Tax	12,180	13,045	10,306	-6.6%	18.2%
Tax Expense	2,984	2,989	2,577	-0.2%	15.8%
Net Profit	9,196	10,055	7,730	-8.5%	19.0%
Balance Sheet Analysis					
Deposits	16,04,760	15,59,217	13,45,829	2.9%	19.2%
CASA Deposits	7,34,647	7,51,050	6,11,801	-2.2%	20.1%
CASA (%)	45.8%	48.2%	45.5%	-239bps	32bps
Advances	13,95,068	13,68,821	11,47,652	1.9%	21.6%
Total Assets	21,09,772	20,68,535	17,53,941	2.0%	20.3%
Capital Adequacy Ratio (%)	17.5%	18.9%	19.1%	-140bps	-160bps
Spread Analysis					
Yield on Avg Advances (%)	8.3%	8.1%	8.3%	18bps	-2bps
Yield on Avg Interest Earning Assets (%)	7.1%	7.0%	7.2%	8bps	-11bps
Cost of Funds (%)	3.6%	3.4%	3.7%	11bps	-9bps
NIM (%)	4.0%	4.0%	4.1%	0bps	-10bps
Asset Quality					
Gross NPA	18,034	16,141	17,099	11.7%	5.5%
Net NPA	4,888	4,408	5,486	10.9%	-10.9%
GNPA (%)	1.3%	1.2%	1.5%	11bps	-19bps
NNPA (%)	0.4%	0.3%	0.5%	3bps	-13bps
Key Ratios					
Cost to Income Ratio (%)	40.6%	38.3%	35.0%	230bps	557bps
C/D Ratio (%)	86.9%	87.8%	85.3%	-86bps	166bps
RoA (%) (annualized)	1.7%	1.9%	1.8%	-20bps	-2bps

Source: Arianth Research, Company Filings

Key Concall Highlights

- The bank continue to add new liability relationships at a robust pace with 2.6 mn (vs 2.4 mn in Q4FY22) liability profile added in Q1FY23.
- Bank is witnessing strong demand across the product categories both in secured as well as unsecured advances.
- In the wholesale segment, bank let go around INR 40,000-50,000 cr worth of assets due to rate dislocation. The bank has aggressive plan both on Agri and MSME side to increase its presence from 1 lacs village currently to 2 lac villages.
- Gold loan processing branches increased from 1,340 in Q4FY22 to 2,000 as of Q1FY23 and it would be offered in most of it branches in the coming quarter.
- EBLR repricing for retail and corporate loan would be 3-6 months with majorly for 3 months.
- Nearly ~45% of the loan book is fixed while remaining 55% is based on floating rate. ~28% of the book is repo linked and ~13-14% of the book is T-bills linked.
- In Q2FY23, bank is looking to launch Payzapp 2.0, customers onboarding journey across more products, balance transfer, EMI etc. Within a month of launch, Xpress auto loans have reached more than 5% of new car loans.
- Bank has issued highest ever quarterly 1.2 mn new credit cards during Q1FY23, witnessing a growth of 47% QoQ. Credit line utilization of cards stood at around 70-80% of pre covid levels.
- Number of credit cards outstanding stood at 17.6 mn with market share at 22.4% as on Jun'22.
- Bank has added 36 branches during the quarter whereas 250 branches are currently in the stage of completion. In FY23, branch addition will be substantial.
- Slippages for the quarter amounted to INR 7,200 cr translating to a non-annualized slippage ratio of 50bps. Excluding the impact of Agri slippages, this ratio was at 38 bps.
- **HDB Financial's Performance:** The bank's subsidiary HDB Financial reported profit of INR 441 cr vs INR 427 cr QoQ. As on Q1FY23, GNPA of the company stood at 4.95% vs. 4.99% QoQ. Total loan book was INR 61,814 cr (+0.8% QoQ) as on Q1FY23. As on Jun'22, total CAR was at 20.3% with Tier 1 capital at 15.4%.

Break-up of Advances

in Cr.	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
Personal Loans	1,47,928	1,40,127	1,20,466	5.6%	22.8%
Auto	1,04,003	1,00,463	91,910	3.5%	13.2%
Home Loans	88,249	83,056	72,235	6.3%	22.2%
Payment Products	80,142	76,757	63,092	4.4%	27.0%
LAP	65,116	62,248	51,696	4.6%	26.0%
Two Wheelers Loan	9,195	9,288	9,526	-1.0%	-3.5%
Gold Loans	8,808	8,350	8,213	5.5%	7.2%
Other Retail Loans	54,440	51,479	41,137	5.8%	32.3%
Commercial & Rural Banking	4,36,485	4,20,191	3,36,229	3.9%	29.8%
Agriculture	61,579	64,545	50,105	-4.6%	22.9%
Corporates	3,63,939	3,64,011	3,14,621	0.0%	15.7%
Total	14,08,175	13,80,515	11,59,230	2.0%	21.5%

Source: Company, Arihant 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	1,51,220	1,80,005
Interest Expense	58,626	55,979	55,744	66,902	76,391
Net Interest Income	56,186	64,880	72,010	84,318	1,03,615
Non interest income	23,261	25,205	29,510	31,296	32,077
Operating income	79,447	90,084	1,01,519	1,15,614	1,35,692
- Employee expense	9,526	10,365	12,032	13,808	15,004
- Other operating expense	21,172	22,358	25,411	33,637	37,580
Operating Expense	30,698	32,723	37,442	47,445	52,584
PPOP	48,750	57,362	64,077	68,168	83,108
Provisions	12,142	15,703	15,062	14,761	16,975
PBT	36,607	41,659	49,015	53,408	66,133
Tax Expense	10,350	10,542	12,054	13,134	16,264
PAT	26,257	31,117	36,961	40,274	49,869
Diluted EPS (INR)	47.89	56.44	66.65	72.62	89.93

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

Balance Sheet (INR Crores)	FY20	FY21	FY22	FY23E	FY24E
Source of Funds					
Share capital	548	551	555	555	555
Reserves & Surplus	1,70,438	2,03,170	2,39,538	2,69,744	3,07,146
Networth	1,70,986	2,03,721	2,40,093	2,70,298	3,07,700
Borrowings	1,44,629	1,35,487	1,84,817	2,21,781	2,88,315
Deposits	11,47,502	13,35,060	15,59,217	18,08,692	20,97,721
Other liabilities & provisions	67,394	72,602	84,407	1,01,548	1,62,477
Total Equity & Liabilities	15,30,511	17,46,871	20,68,535	24,02,319	28,56,213
Uses of Funds					
Cash & bank balances	86,619	1,19,470	1,05,811	1,64,286	1,90,904
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	16,42,585	19,71,102
Fixed assets	4,432	4,909	6,084	5,087	5,166
Other assets	53,931	45,926	1,32,284	52,829	44,002
Total Assets	15,30,511	17,46,871	20,68,535	24,02,319	28,56,213

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

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
Growth Rates					
Advances (%)	21.3%	14.0%	20.8%	20.0%	20.0%
Deposits (%)	24.3%	16.3%	16.8%	16.0%	16.0%
Total assets (%)	23.0%	14.1%	18.4%	16.1%	18.9%
NII (%)	16.5%	15.5%	11.0%	17.1%	22.9%
Pre-provisioning profit (%)	22.6%	17.7%	11.7%	6.4%	21.9%
PAT (%)	24.6%	18.5%	18.8%	9.0%	23.8%
B/S Ratios					
Credit/Deposit (%)	86.6%	84.9%	87.8%	90.8%	94.0%
CASA (%)	42.2%	46.1%	48.2%	49.6%	51.0%
Advances/Total assets (%)	64.9%	64.8%	66.2%	68.4%	69.0%
Leverage - Total Assets to Equity	9.0	8.6	8.6	8.9	9.3
CAR (%)	17.1%	15.8%	17.5%	16.7%	15.9%
Operating efficiency					
Cost/income (%)	38.6%	36.3%	36.9%	41.0%	38.8%
Opex/total assets (%)	2.0%	1.9%	1.8%	2.0%	1.8%
Opex/total interest earning assets	2.3%	2.1%	2.1%	2.2%	2.0%
Profitability					
NIM (%)	4.2%	4.1%	4.0%	3.9%	4.0%
RoA (%)	1.9%	1.9%	1.9%	1.8%	1.9%
RoE (%)	16.4%	16.6%	16.7%	15.8%	17.3%
Asset quality					
Gross NPA (%)	1.3%	1.3%	1.4%	1.3%	1.3%
Net NPA (%)	0.4%	0.4%	0.4%	0.4%	0.4%
PCR (%)	75.0%	75.0%	75.0%	75.0%	75.0%
Per share data / Valuation					
EPS (INR)	47.9	56.4	66.7	72.6	89.9
BVPS (INR)	311.8	369.5	433.0	487.4	554.9
ABVPS (INR)	305.3	361.3	424.0	477.8	543.2
P/E (x)	28.4	24.1	20.4	18.8	15.1
P/BV (x)	4.4	3.7	3.1	2.8	2.5
P/ABV (x)	4.5	3.8	3.2	2.9	2.5

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

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880