

# Retail Equity Research

## HDFC Bank

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 55,682

**BUY**

 12 Months Investment Period Rating as per Large cap  
 CMP Rs. 1,361 TARGET Rs. 1,705 RETURN 25%   
 (Closing: 21-07-22)

**KEY CHANGES:**
**TARGET** 
**RATING** 
**EARNINGS** 

### Steady topline; retail loans make a turnaround

HDFC Bank was incorporated in August 1994. It provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- Gross interest income saw a growth of 4.8% QoQ (+15.6% YoY) to Rs. 37,273cr, while interest expenses grew 7.4% QoQ (+15.0% YoY). Net interest margin (NIM) remained stable sequentially at 4.0%.
- Restructuring of stressed assets under the RBI Resolution Framework for Covid-19 stood at Rs. 10,750cr.
- The bank delivered a steady performance during the quarter. The merger with HDFC Limited remains on track and, post completion, will further strengthen its position in the banking space. We remain positive on the stock and retain our BUY rating, with a lower target price of Rs. 1,705, based on 2.9x FY24E BVPS.

### Positive growth in NII

During Q1FY23, the bank's NIM remained stable at 4.0% vis-à-vis Q4FY22. NII grew 2.8% sequentially to Rs. 20,915cr (+16.0% YoY), due to an increase in advances (+1.9% QoQ). Cost-to-income ratio (excluding trading and mark-to-market gains/losses) went up by 70bps QoQ to 39.0%, led by the ongoing expansion of its branch network, leading to 3.1% QoQ growth in operating expenses at Rs. 11,355cr. Of this, employee costs stood at Rs. 4,607cr (+9.7% QoQ, +26.4% YoY), due to the onboarding of new employees. Provisioning fell further to Rs. 3,665cr (-9.1% QoQ, -31.7% YoY). Due to higher expenditure, PAT fell -8.2% QoQ to Rs. 9,616cr, but was up +21.1% YoY.

### Balance sheet strengthens further; seasonality impacts asset quality

The bank's advances grew 1.9% sequentially to Rs. 1,448,111cr. Asset quality, however, declined marginally due to seasonality in the agri-loans portfolio, with GNPA's / NNPA's declining to 1.28%/0.35% (vs. 1.14%/0.31% in Q4FY22). PCR reached 72.9% (vs. 71.0%). Domestic auto-loan book inched up 3.5% QoQ, personal loans by 5.6%, home loans by 6.3%, and gold loans by 5.5%. Deposits went up by 2.9% QoQ to Rs. 1,603,629cr, with CASA ratio at 45.8% (vs. 48.2%). CAR stood at 18.1%.

### Key concall highlights

- HDFC bank opened 36 new branches in Q1FY23, taking the total branch count to 6,378, with another 250 branches under various stages of implementation.
- The cards business grew 47% YoY, with 1.2mn new cards being issued, taking the total cards base to 17.6mn. The bank now commands a 22.4% market share in cards, with a share of 48.9% in card receivables and 27.7% in card spending.
- Loan mix as of Q1FY23 was: retail - 39%, CRB - 35%, and corporate - 26%.

### Outlook & valuation

HDFC Bank's earnings trajectory remains on track with continued growth in retail. Excluding the seasonal impact, a gradual improvement could be seen in NPAs, with lower slippage. The ongoing expansion of branch network and cards business, coupled with the merger, is expected to aid long-term growth. In the near term however, the recent hiring spree and investments towards setting up branches may put pressure on bank's pre-provision operating profit margins and the bottomline. Nevertheless, the bank's long-term outlook remains positive. We thereby retain our BUY rating on the stock, with a lower target price of Rs. 1,705 based on 2.9x FY24E BVPS.

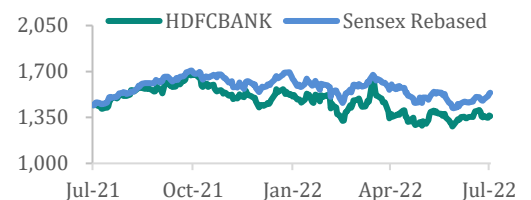
### Company Data

Market Cap (cr)	Rs. 754,743
Outstanding Shares (cr)	556
Free Float	79.0%
Dividend Yield	1.2%
52 week high	Rs. 1,724
52 week low	Rs. 1,272
6m average volume (lacs)	3.6
Beta	1.1
Face value	Rs. 1

Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	25.8	25.8	25.7
FII's	37.5	35.6	32.3
MFs/Insti	23.1	24.7	27.3
Public	11.4	11.6	12.4
Others	2.3	2.3	2.3
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-1.0%	-10.5%	-5.7%
Absolute Sensex	-3.9%	-5.7%	6.7%
Relative Return*	2.9%	-4.8%	-12.4%

\*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Net Interest Income	77,352	88,718	105,496
Growth (%)	11.6	14.7	18.9
NIM (%)	4.4	4.4	4.5
Pre-Provision Profit	68,799	79,514	94,128
Net Profit	38,151	45,709	55,673
Growth (%)	19.8	19.8	21.8
Adj. EPS	68.3	81.8	99.7
Growth (%)	18.6	19.8	21.8
BVPS	442.8	508.2	588.0
P/E	21.5	16.5	13.5
P/B	3.3	2.7	2.3
ROE (%)	16.7	17.2	18.2
ROA (%)	1.9	2.0	2.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q1FY23	Q1FY22	YoY Growth %	Q4FY22	QoQ Growth %
Interest Income	37,274	32,254	15.6	35,574	4.8
Interest Expense	16,358	14,219	15.0	15,227	7.4
<b>Net Interest Income (NII)</b>	<b>20,916</b>	<b>18,035</b>	<b>16.0</b>	<b>20,348</b>	<b>2.8</b>
Non-Interest Income	6,929	6,680	3.7	8,386	(17.4)
<b>Total Income</b>	<b>44,202</b>	<b>38,934</b>	<b>13.5</b>	<b>43,960</b>	<b>0.6</b>
Operating Expenses	11,355	8,707	30.4	11,014	3.1
<b>Total Expenditure</b>	<b>27,713</b>	<b>22,925</b>	<b>20.9</b>	<b>26,240</b>	<b>5.6</b>
<b>Pre-Provision profit</b>	<b>16,489</b>	<b>16,008</b>	<b>3.0</b>	<b>17,720</b>	<b>(6.9)</b>
Provisions	3,666	5,366	(31.7)	4,031	(9.1)
<b>Profit Before Tax</b>	<b>12,823</b>	<b>10,642</b>	<b>20.5</b>	<b>13,690</b>	<b>(6.3)</b>
Tax	3,207	2,702	18.7	3,215	(0.3)
<b>Net Profit</b>	<b>9,617</b>	<b>7,940</b>	<b>21.1</b>	<b>10,475</b>	<b>(8.2)</b>
Adj. EPS - Diluted (Rs.)	17.2	14.3	20.3	18.7	(8.0)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>Net Int. Inc. (NII)</b>	<b>83,251</b>	<b>101,248</b>	<b>88,718</b>	<b>105,496</b>	<b>6.6</b>	<b>4.2</b>
Pre-Provision Profit	74,968	90,288	79,514	94,128	6.1	4.3
Net Profit	43,796	54,305	45,709	55,673	4.4	2.5
<b>Adj. EPS (Rs.)</b>	<b>79.2</b>	<b>98.2</b>	<b>81.8</b>	<b>99.7</b>	<b>3.3</b>	<b>1.5</b>

## PROFIT & LOSS

Y.E Mar (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Interest Income	122,189	128,552	135,936	160,039	190,541
Interest Exp.	62,137	59,248	58,584	71,322	85,045
<b>Net Int. Income</b>	<b>60,052</b>	<b>69,305</b>	<b>77,352</b>	<b>88,718</b>	<b>105,496</b>
% Change	24.5	15.4	11.6	14.7	18.9
Non-Int. Income	24,879	27,333	31,759	36,745	42,605
<b>Net Income</b>	<b>84,931</b>	<b>96,638</b>	<b>109,111</b>	<b>125,463</b>	<b>148,101</b>
<b>Total Income</b>	<b>147,068</b>	<b>155,885</b>	<b>167,695</b>	<b>196,785</b>	<b>233,146</b>
Operating Exp.	33,036	35,001	40,312	45,949	53,973
<b>Total Exp.</b>	<b>95,173</b>	<b>94,249</b>	<b>98,897</b>	<b>117,271</b>	<b>139,018</b>
<b>Pre-Prov. Profit</b>	<b>51,895</b>	<b>61,636</b>	<b>68,799</b>	<b>79,514</b>	<b>94,128</b>
Provisions	13,700	18,840	17,925	18,569	19,897
PBT	38,195	42,796	50,873	60,945	74,231
Tax	10,899	10,939	12,722	15,236	18,558
Tax Rate (%)	28.5	25.6	25.0	25.0	25.0
<b>Net Profit</b>	<b>27,296</b>	<b>31,857</b>	<b>38,151</b>	<b>45,709</b>	<b>55,673</b>
% Change	29.5	16.7	19.8	19.8	21.8
No. of Shares (cr)	551	553	559	559	559
<b>Adj. EPS (Rs.)</b>	<b>49.5</b>	<b>57.6</b>	<b>68.3</b>	<b>81.8</b>	<b>99.7</b>
% Change	26.9	16.4	18.6	19.8	21.8
DPS (Rs.)	0.0	6.5	15.5	16.4	19.9

## BALANCE SHEET

Y.E Mar (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash & Balances	87,940	121,273	155,386	155,186	172,506
Investments	389,305	438,823	449,264	527,885	580,674
Advances	1,043,671	1,185,284	1,420,942	1,648,293	1,936,744
Fixed Assets	4,627	5,100	6,283	7,757	9,597
Other Assets	55,288	49,028	91,059	114,052	143,135
<b>Total Assets</b>	<b>1,580,830</b>	<b>1,799,507</b>	<b>2,122,934</b>	<b>2,453,173</b>	<b>2,842,656</b>
Capital	548	551	555	555	555
Reserves & Surplus	175,810	209,259	246,772	283,338	327,877
Deposits	1,146,207	1,333,721	1,558,003	1,822,864	2,150,979
Borrowings	186,834	177,697	226,967	247,393	254,815
Other Liabilities	71,430	78,279	90,639	99,023	108,430
<b>Total Liabilities</b>	<b>1,580,830</b>	<b>1,799,507</b>	<b>2,122,934</b>	<b>2,453,173</b>	<b>2,842,656</b>
<b>BVPS (Rs.)</b>	<b>319.8</b>	<b>379.4</b>	<b>442.8</b>	<b>508.2</b>	<b>588.0</b>
% Change	15.8	18.6	16.7	14.8	15.7

## RATIOS

Y.E Mar (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Valuation</b>					
P/E (x)	17.4	25.9	21.5	16.5	13.5
P/BV (x)	2.7	3.9	3.3	2.7	2.3
Div. Yield (%)	0.0	0.4	1.1	1.2	1.5
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	10.6	9.2	8.2	8.5	8.8
Cost of Deposits	5.2	4.2	3.6	3.7	3.8
Spread	5.4	5.0	4.6	4.8	5.0
NIM	4.7	4.5	4.4	4.4	4.5
ROE	16.8	16.5	16.7	17.2	18.2
ROA	1.9	1.9	1.9	2.0	2.1
<b>Capital Adequacy (%)</b>					
CAR	18.5	18.8	18.9	19.2	19.4
Tier I	17.2	17.6	17.9	18.2	18.6
Tier II	1.3	1.2	1.0	0.9	0.8
<b>Asset Quality (%)</b>					
GNPA	1.2	1.3	1.1	1.3	1.2
NNPA	0.3	0.4	0.3	0.3	0.3
<b>Operating Ratios (%)</b>					
Credit/ Deposit	91.1	88.9	91.2	90.4	90.0
Cost/ Income	38.9	36.2	36.9	36.6	36.4
CASA	42.3	46.2	48.2	47.3	47.5

## Recommendation Summary (Last 3 Years)



Dates	Rating	Target
24-Jul-19	BUY	1,304
24-Oct-19	BUY	1,412
22-Jan-20	BUY	1,425
13-Apr-20	BUY	1,134
23-Jul-20	BUY	1,403
21-Oct-20	BUY	1,420
05-Jan-21	HOLD	1,529
22-Apr-21	BUY	1,653
22-Jul-21	BUY	1,658
20-Oct-21	BUY	1,931
20-Jan-22	BUY	1,902
12-Apr-22	BUY	1907
22-Jul-22	BUY	1,705

Source: Bloomberg, Geojit research

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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