



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2022

31.40

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

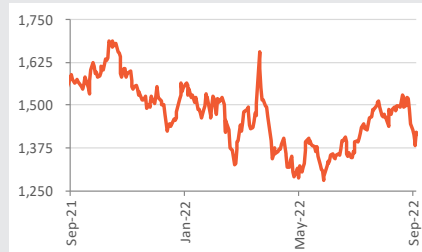
Company details

Market cap:	Rs. 8,09,204 cr
52-week high/low:	Rs. 1,724 / 1,272
NSE volume: (No of shares)	81.8 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	440.0 cr

Shareholding (%)

Promoters	21.0
FII	32.3
DII	27.1
Others	19.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	7.2	-12.3	-8.4
Relative to Sensex	-0.2	-1.9	-8.1	-6.3

Sharekhan Research, Bloomberg

HDFC Bank

Business momentum strong

Banks	Sharekhan code: HDFCBANK			
Reco/View: Buy	↔	CMP: Rs. 1,453	Price Target: Rs. 1,800	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- HDFC Bank released its Q2FY2023 business update, wherein total advances grew at a healthy pace of 23.5% YoY vs. 21.6% YoY in Q1FY2023. Sequentially also, advances grew by 6.1% vs. 1.9% in Q1FY2023 to Rs. 13.95 trillion.
- As per the bank's internal classification, retail loans grew by 21.5% YoY/5% QoQ. Commercial and rural banking continued to remain strong (up 31.5% YoY/9.5% QoQ). Corporate and the other wholesale book also witnessed healthy growth of 27% YoY/ 9% QoQ.
- The bank's deposit base rose by 19.0% YoY/4.3% QoQ to Rs. 16.7 trillion. CASA deposits grew by 15.4% YoY/3.4% QoQ. CASA mix declined by 40 bps QoQ to 45.4%. Retail/Wholesale deposits grew by 20.5%/12.5% YoY and 5.5%/down 0.5% QoQ.
- At the CMP, the bank trades at 2.7x and 2.3x its FY2023E and FY2024E Core BV, respectively. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,800.

HDFC Bank reported strong business performance in Q2FY2023 in terms of loan growth as well as deposit growth on a YoY basis. The trend remained healthy on a sequential basis as well. Retail loan growth remained steady, while the commercial banking and corporate segments witnessed strong traction and will likely support growth in PPOP. We expect the margin trajectory to recover gradually over FY2023, while steady retail loan growth will be supportive of fee income. The trend in deposits growth also remained strong. Loan-to-Deposits ratio improved to 88.4% from 86.9% QoQ and 85.2% YoY. The bank purchased loans aggregating Rs.91.5 billion in 2QFY2023, through the direct assignment route, under a home loan arrangement with HDFC Ltd.

- Broad based healthy loan growth trend likely to sustain:** We believe healthy trend in retail loan growth should sustain going ahead, as the demand environment is turning better across products over the medium term. Personal loans and credit card spends are also turning higher, led by increased discretionary spends. Moreover, the bank is likely to sustain its healthy growth in the CRB segment as it is adding new geographies and capturing supply chain of unserved SMEs. We also expect corporate loan growth to sustain over the medium term, driven by capex-led growth. HDFC Bank is likely to see its market share gain accelerate. Although credit growth for the banking system is at a multi-year high at ~16% YoY (as on September 9, 2022). However, we are not too concerned about this because we are only at the beginning of a credit cycle.
- Margins to improve gradually over FY2023:** Around ~55% of the total book is floating rate loans, while the balance 45% comprises fixed rate loans. Repricing of floating rate book takes place in three/six months, depending upon the loan contract. There should be an uptick in margins going forward, as the floating rate book gets repriced gradually and the share of retail increases gradually in the overall mix.
- Mobilisation of low-cost deposits:** We believe mobilisation of low-cost deposits is expected to remain at a healthy pace, led by branch expansion strategy. The bank does not intend to increase its deposit base by raising rates drastically, however there would be some uptick in term deposit rates going forward. Despite mid and small peer banks offering higher deposit rates, the bank is able to maintain its market share, which is gradually improving and is a key positive. HDFC Bank was the only bank to see deposit growth (3% QoQ) outpace loan growth (2% QoQ) in Q1FY2023.

Our Call

Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,800

We believe HDFC Bank is on an accelerated growth path with strong advances growth, led by retail, MSME, and corporate segments along with healthy low-cost deposit mobilisation. The bank's continuous building up of its digital capabilities and franchise network is likely to bode well for growth going ahead. The stock has underperformed its peers in the past 12 months. The bank is well capitalised and has the ability to manage its asset quality across cycles and deliver superior return ratios irrespective of economic cycles and reap opportunities from any revival in the economy going ahead. The stock is currently trading at 2.7x and 2.3x its FY2023E and FY2024E core ABV, respectively.

Key Risks

Economic slowdown that can lead to slower loan growth and higher-than-anticipated credit cost.

Valuation (Standalone)

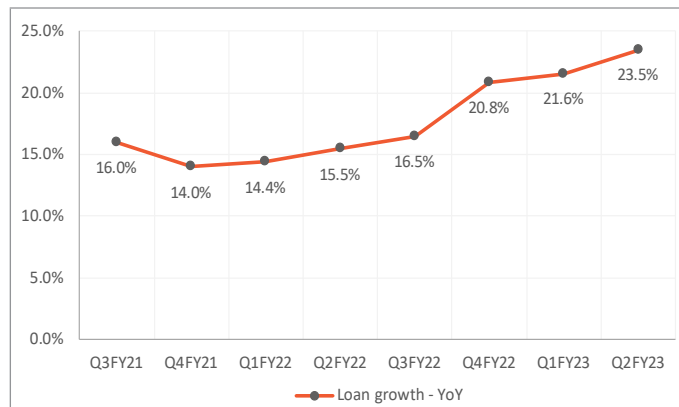
Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	72,010	84,478	1,00,294	1,16,560
Net profit	36,962	43,303	51,837	60,027
EPS (Rs.)	66.3	77.4	91.8	105.4
P/E (x)	20.9	17.9	15.1	13.1
P/BV (x)	3.2	2.7	2.3	2.0
RoE (%)	16.7	16.5	16.8	16.4
RoA (%)	1.9	1.9	1.9	1.8

Source: Company; Sharekhan estimates

Broad-based healthy loan growth trend likely to sustain:

We believe healthy trend in retail loan growth should sustain going ahead, as demand environment is turning better across products in the medium term. Personal loans and credit card spends are also turning higher, led by increased discretionary spends. Moreover, the bank is likely to sustain healthy growth in the CRB segment, as it is adding new geographies and capturing supply chain of unserved SMEs. We also expect corporate loan growth to sustain over the medium term, driven by capex led growth. HDFC Bank is likely to see its market share gain accelerate. Although credit growth for the banking system is at a multi-year high at ~16% YoY (as on September 9, 2022). However, we are not too concerned about this, as we are only at the beginning of a credit cycle.

Loan growth at 23.5% YoY and 6.1% QoQ in 2QFY23

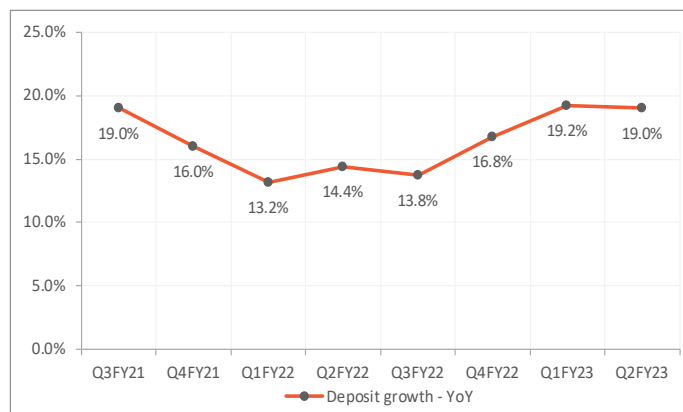


Source: Company, Sharekhan Research

Mobilisation of low-cost deposits:

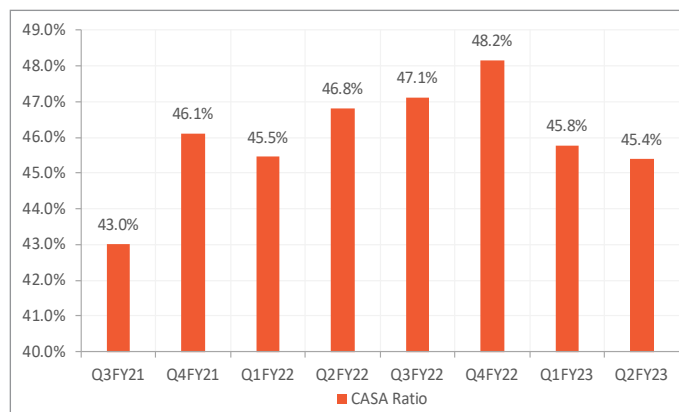
We believe mobilisation of low-cost deposits is expected to remain at a healthy pace, led by branch expansion strategy. The bank does not intend to increase its deposit base by raising rates drastically, however there would be some uptick in rates going forward. Despite mid and small peer banks offering higher deposit rates, the bank is able to maintain its market share, which is gradually improving and is a key positive. HDFC Bank was the only bank to witness deposit growth (3% QoQ) outpace loan growth (2% QoQ) in Q1FY2023.

Deposits grew 19.0% YoY and 4.3% QoQ in 2QFY23



Source: Company, Sharekhan Research

Trend in CASA ratio

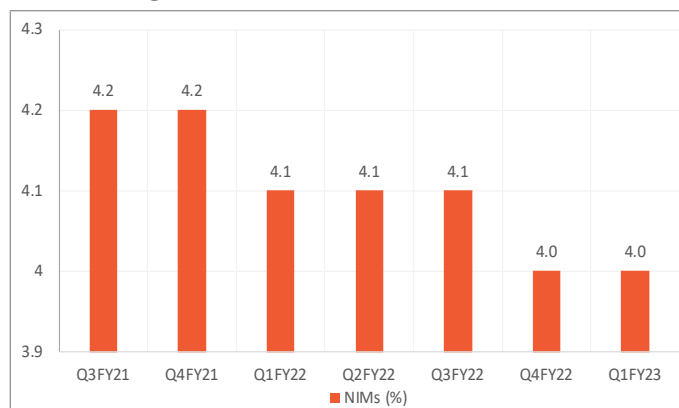


Source: Company, Sharekhan Research

Margins to improve gradually over FY2023:

Around 55% of the total book comprises floating rate loans, while the balance 45% comprises fixed rate loans. Repricing of floating rate book happens in three/six months, depending upon the loan contract. There should be an uptick in margins going forward, as floating rate book gets repriced gradually and share of retail increases gradually in the overall mix.

Trend in Margins



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Credit growth is sustaining; Top private banks placed better

System-level credit offtake grew by ~16.2% y-o-y in the fortnight ending September 9, 2022, indicating loan growth has been sustaining, given distinct signs of improving economy and revival of investments and loan demand. Deposits growth remained steady at ~9.5% y-o-y, which reflects a healthier economic scenario; however, it is trailing advances growth. The bottom-up story is intact, and we should see loan growth acceleration sustaining. Margins are likely to improve in a higher interest-rate cycle. Asset quality is not a big issue on the corporate lending end, as only de-leveraging is being observed. From the retail side, there could be some pressure, but nothing is significant. Asset quality is likely to remain stable over the medium term. Banks are in a sweet spot in terms of fundamentals and reasonable valuations. In the past two years, banks have been cautious on lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe large banks with a strong capital base and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company Outlook – Structural drivers in place with strong execution capabilities

We believe structural drivers are in place for HDFC Bank, helping it gain market share, aided by operational efficiencies and best-in-class asset quality. The bank has built a strong provision buffer, which works as a strong cushion against probable future risks. Notably, the franchise continues to be one of the best-managed having strong and prudent business models and should be seen from a long-term perspective. The bank's risk-calibrated growth, strong underwriting, assessment capabilities, and building new digital capabilities would be adding to the moat of its business strength. HDFC Bank's sufficient buffer of floating provisions and contingent provisions along with comfortable capitalisation levels (CAR ratio at 18.1%) are key positives.

■ Valuation – We maintain Buy rating on the stock with an unchanged TP of Rs. 1,800.

We believe HDFC Bank is on an accelerated growth path with strong advances growth, led by retail, MSME, and corporate segments along with healthy low-cost deposit mobilisation. The bank's continuous building up of its digital capabilities and franchise network is likely to bode well for growth going ahead. The stock has underperformed its peers in the past 12 months. The bank is well capitalised and has the ability to manage its asset quality across cycles and deliver superior return ratios irrespective of economic cycles and reap opportunities from any revival in the economy going ahead. The stock is currently trading at 2.7x and 2.3x its FY2023E and FY2024E core ABV, respectively.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			F23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
HDFC Bank	1,453	8,09,204	17.9	15.1	2.7	2.3	16.5	16.8	1.9	1.9
ICICI Bank	868	6,04,568	17.3	14.2	2.4	2.0	14.7	15.4	1.8	1.9
Axis Bank	743	2,28,250	11.9	9.9	1.6	1.4	14.3	14.9	1.4	1.5

Source: Company, Sharekhan estimates

About company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional/branch banking on the retail side. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

Investment theme

HDFC Bank is among the top performing banks in the country. The bank has a strong presence in the retail segment with strong asset quality and best-in-class margins. Not only the bank, but its strong and marquee parentage enjoys arguably the strongest brand recall in the country, which is at a significant competitive advantage in the Indian banking space. The bank's strong brand appeal, impressive corporate governance, and strong management team (consistency in performance and best-in-class granular clientele) have enabled it to be a long-term wealth creator for investors, and the above factors still hold true. The bank continues to report consistent return ratios and earnings growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality, which is indicative of the strong business franchise strength and leadership qualities.

Key Risks

Economic slowdown that can lead to slower loan growth and higher-than-anticipated credit cost.

Additional Data

Key management personnel

Mr Sashidhar Jagdishan	Managing Director/CEO
Mr. Kaizad Bharucha	Executive Director
Mr Srinivasan Vaidyanathan	Group Chief Financial Officer
Mr Jimmy Tata	Chief Risk Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Investment Ltd	5.4
2	Capital Group Cos Inc/The	4.5
3	SBI Funds Management Pvt Ltd	3.7
4	LIFE INSURANCE CORPORATION OF INDIA	2.1
5	Morgan Stanley	2.1
6	Euro Pacific Growth Fund	2.0
7	FMR LLC	1.9
8	FIL Ltd	1.5
9	ICICI PRUDENTIAL Asset Management	1.4
10	Invesco	1.4

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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