

HDFC Bank Ltd.



HDFC Bank Ltd.

Resilient credit growth with strong traction across the segments

CMP INR 1,445	Target INR 1,836	Potential Upside 27.0%	Market Cap (INR Mn) INR 8,051,097	Recommendation BUY	Sector Banks
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Result Highlights for Q2FY23:

- Net Interest Income (NII) for Q2FY23 stood at INR 2,10,212 Mn, a growth of 18.9% YoY/ 7.9% QoQ led by robust growth in advances and improvement in yields. The Core NIMs were stable at 4.1% in Q2FY23, an improvement of 10 bps QoQ.
- Pre-Provision Operating Profits (PPOP) grew 10.0% YoY/ 15.3% QoQ at INR 1,73,922 Mn. Provisions for Q2FY23 were at INR 32,401 Mn as against INR 39,247 Mn in Q2FY22. The credit cost for Q2FY23 stood at 0.87% vs 0.91% in Q1FY23 and 1.30% in Q2FY22.
- Net Profit stood at INR 1,06,058 Mn, an increase of 20.1% YoY/ 15.3% QoQ.
- The GNPA were 1.23% as of September 30, 2022, vs a comparable 1.35% as of September 30, 2021. NNPA for the quarter ended stood at 0.33% vs 0.50% as of September 30, 2021, of the net advances.
- Advances as of September 30, 2022, were at INR 1,47,98,732 Mn, a growth of 23.4% YoY/ 6.1% QoQ. The deposit grew by 19.0% YoY/ 4.3% QoQ at INR 1,67,34,080 Mn.

MARKET DATA

Shares outs (Mn)	5,570
Equity Cap (INR Mn)	25,41,114
Mkt Cap (INR Mn)	8,051,097
52 Wk H/L (INR)	1,725/1,272
Volume Avg (3m K)	6,507
Face Value (INR)	1
Bloomberg Code	HDFCB IN

KEY FINANCIALS

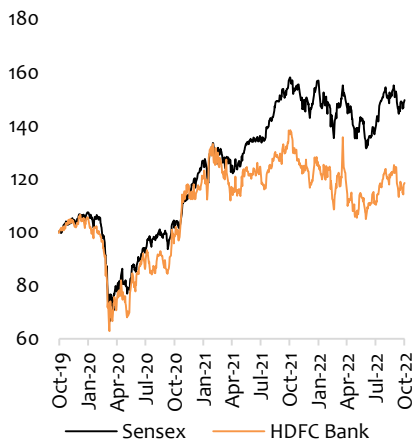
INR Mn	FY20	FY21	FY22	FY23E	FY24E
NII	5,61,863	6,48,795	7,20,096	8,55,740	10,05,739
PPOP	4,87,496	5,73,618	6,40,773	7,19,735	8,61,157
PAT	2,62,573	3,11,165	3,69,613	4,38,166	5,25,014
EPS (INR / Share)	47.9	56.5	66.7	78.7	94.3
BVPS (INR / Share)	311.8	369.9	432.9	474.3	544.9
NIM (%)	4.4%	4.2%	4.0%	4.1%	4.2%
Advances Growth YoY (%)	21.3%	14.0%	20.8%	20.0%	18.0%

Source: Company, KRChoksey Research

Corporate, retail & commercial rural businesses drives strong growth in advances: HDFCB reported a second consecutive strong quarter in terms of overall business momentum. The Bank registered a robust loan book growth of 23.4% YoY/ 6.1% QoQ in Q2FY23 at INR 1,47,98,732 Mn. The commercial & rural banking segment reported strong growth of 31.3% YoY, while the corporate book grew by 27.0% YoY during the quarter. The corporate lending book is also witnessing a strong pick up in growth on a sequential basis despite volatility in the macro environment. The retail loan book continued to report a resilient growth of 21.4% YoY while 4.9% QoQ. Home loans grew by 22.8% YoY/ 5.4% QoQ among the retail segment. The auto segment grew by 14.3% YoY/ 4.6% QoQ, while the two-wheeler saw a fall in growth by 1.2% YoY. The personal loan segment continued to see strong traction with 22.5% YoY/ 4.7% QoQ growth. The credit growth is expected to remain robust on the back of the upcoming festive season. The deposits for the quarter ended grew by 19.0% YoY/ 4.3% QoQ. CASA grew by 15.4% YoY, constituting 45.4% of the overall deposits. Retail deposits continued to lead the deposits growth contributing 83.0% to the total deposits. We expect the loan book to grow at a CAGR of 19.0% over FY22-24E, driven by healthy growth in retail on the back of a strong festive season & increased spending on the corporate side. We expect deposits to grow by 17.0% CAGR over FY22-24E, focusing on granular deposits and gaining traction in retail deposits.

Asset quality improves further leading to lower credit costs: The GNPA/ NNPA stood at 1.23%/ 0.33%, registering an improvement of 12 bps/ 17 bps YoY, respectively. The slippage ratio for Q2FY23 stood at 0.35% against 0.5% in Q1FY23. The recoveries and upgrades were about INR 25 Bn Mn, while write-offs were at INR 30 Bn in Q2FY23. Restructuring under the RBI Resolution Framework for COVID-19 as of September 30, 2022, stood at 53 bps. The Bank reported the provisions of INR 32,401 Mn with credit cost at 0.87%, showing an improvement of 43 bps YoY/ 4 bps QoQ. We believe provisions to remain at an adequate level going ahead. We expect GNPA's/ NNPA's to be stable at 1.0%/0.3% in FY24E.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	58,411
NIFTY	17,312

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	25.7	25.8	25.8
FIIs	32.3	35.6	37.5
DIIIs	27.3	24.7	23.1
Others	14.7	13.9	13.6
Total	100.0	100.0	100.0

18.2%

NII CAGR between FY22 and FY24E

19.2%

PAT CAGR between FY22 and FY24E

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Healthy operating profits supported by NII & decent growth in non-interest income: The NII for the quarter grew by 18.9% YoY/ 7.9% QoQ with NIMs improving by 10 bps QoQ, owing to the rate hike lag effect. HDFCB remains positive on the margins front, given the improving loan book mix. The retail book is expected to grow at a higher rate, leading to improved yields. NIMs are expected to be benefitted from the interest rate hike scenario considering the higher share of the floating portfolio (~55% of the total loan book) for HDFCB. Despite the rise in the cost of funds, NIMs will remain accretive, driven by a high-yielding portfolio & lead effect of asset repricing. HDFCB reported a 2.6% YoY/ 18.9% QoQ growth in the non-interest income, where the core fee income grew by 17.3% YoY. Excluding the trading and MTM losses for the quarter, the bank reported an overall other income growth of 16.7% YoY. The MTM losses for Q2FY22 stood at INR 2,531 Mn against the gain of INR 6,755 Mn in Q2FY22. HDFCB continued to spend aggressively on branch expansion & digital upgrades, leading to a 21.0% increase in operating expenses. The cost-to-income ratio for the quarter stood at 39.2%, an improvement of 137 bps QoQ owing to sequentially higher non-interest income. We expect the cost-to-income ratio will continue to be in the range of 38.0-39.0% for FY23-24E given its increased spending on branches, workforce & digital initiatives. Fee income is expected to be healthy on the back of a strong business growth outlook.

Key Concall Highlights:

Macro Update:

1. The Bank expects the continued recovery in domestic demand, boosted by the onset of the festive season and higher government CapEx, will support the growth. Geopolitical instability, strong US dollars, etc., continued to occupy centre stage Q2FY23. Activity indicators, released during July to September quarter, indicate that economic activity continues to hold up despite global risk; high frequency, on the other hand, has risen so far this year and is also promising to provide further opportunity and optimism.
2. Labor market conditions are also improving in the rural areas, as seen by the fall in the MNREGA work demand and wage growth. RBI raised the policy rate by 100 bps in the quarter, taking the repo rate to 5.9%; the Central Bank has hiked rates by 190 basis points since May-22. Bank expects GDP growth to be around 7.0% in FY23E.

Operational Update:

1. On the distribution expansion, the Bank added 121 branches in Q2FY23, and about 500 more branches are in various stages in the pipeline to be opened in the next few months.
2. Payment Acceptance points have grown by 269,000 in the quarter to 3.5 Mn and have increased by over 1 Mn vs the prior year, a growth of 41% YoY.
3. The Bank has expanded by 145 new locations in the quarter and plans to drive an increase in market share through deepening in B30 cities.
4. SmartHub Vyapar App, the one-stop merchant solution, was formally launched to facilitate instant, digital and paperless merchant onboarding and allow merchants to accept interoperable payment across multiple payment modes. The platform adds more than 60,000 merchants every month. As of the end of September, over 1.6 million small businesses are on the SmartHub platform.
5. Phone banking voice support rollout is underway across the country, adding more cities and multi-lingual support. HDFCB sees this as a significant step in its journey to create an engaging customer experience while at the same time bringing productivity improvements to its call centre operations.
6. The Bank launched PayZapp 2.0 to a closed user group for performance optimization and to improve payments experiences; it expects to broad base the rollout shortly.
7. HDFCB expects the merger process with HDFC Ltd to be completed by Q1-Q2 of FY24E as against the previous timeline of Q3-Q4 of FY24E.
8. Revolver rates are still at that 70% - 75% of the pre-COVID level.
9. Trading and mark-to-market losses were INR 2.53 Bn; the mark-to-market losses are mainly from its AFS investments in the corporate bond and PTCs, due to rate movements in the front-end yield curve.
10. SME businesses are present in 90% of the districts in the country, and rural business reach expanded to 1.42 lakh villages and is on track to reach the objective of 2 lakh villages.

Valuation and view:

HDFCB reported a robust growth in Q2FY23, despite macro headwinds. The growth in advances accelerated during the quarter ended, led by strong momentum in the commercial & rural and corporate segments. We believe HDFCB to continue to see higher growth trends in upcoming quarters. On the liability side, the increasing contribution of the retail deposits will support the margin trajectory for the bank. The quarter saw a sequential fall in the MTM losses from INR 13,117 Mn to INR 2,531 Mn, led by comparatively stable bond yields. This led to an improvement in the overall operating profits of the bank. We expect the asset quality to remain stable under normalized circumstances with lower slippages and healthy recoveries and upgrades of the stressed books, resulting in lower credit costs for FY23-24E. We expect CAGR in NII at 18.2%, PPOp at 15.9%, and PAT at 19.2% over FY22-24E. Since our last update, the shares of HDFC Bank Ltd. has appreciated by 7.2% and are currently trading at 2.7x FY24E P/ABV. We see HDFCB's current valuation re-rate on the back of a) continued strong business momentum, b) increasing contribution from the high yield segment, c) stable margins outlook, and d) synergies from the HDFC & HDFCB merger. We remain watchful of the merger's progress and impact on the bank. We have not built the merged numbers into the model currently. **We maintain our target price at INR 1,836 per share (unchanged), implying a P/ABV multiple of 3.4x to the adjusted book value of INR 536 per share, showing an upside of 27.0% over the CMP. Accordingly, we reiterate our BUY rating on the shares of HDFC Bank Ltd.**

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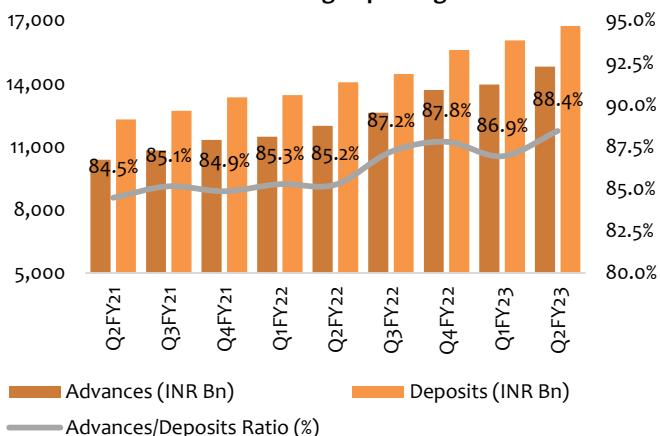
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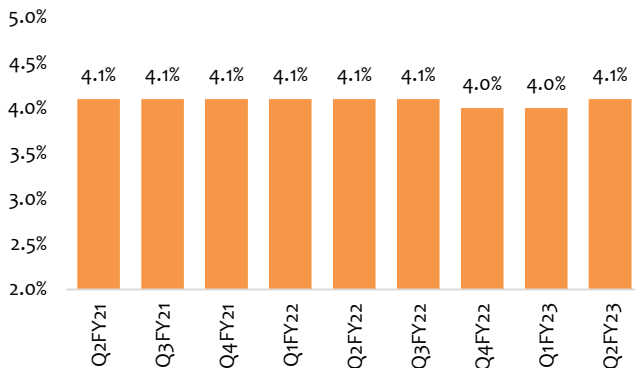
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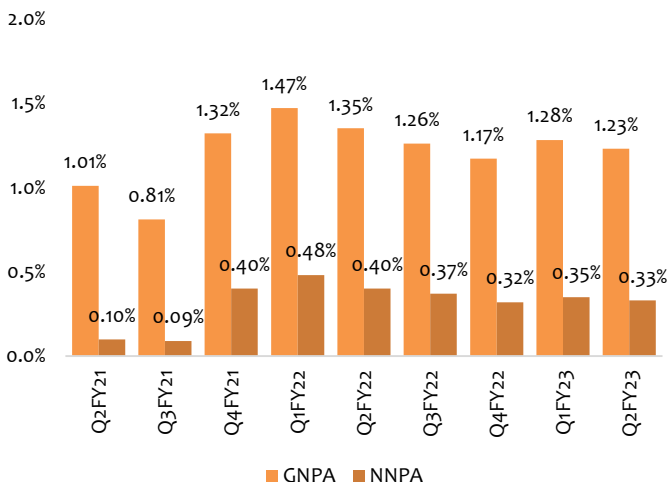
Advances showing improving trends



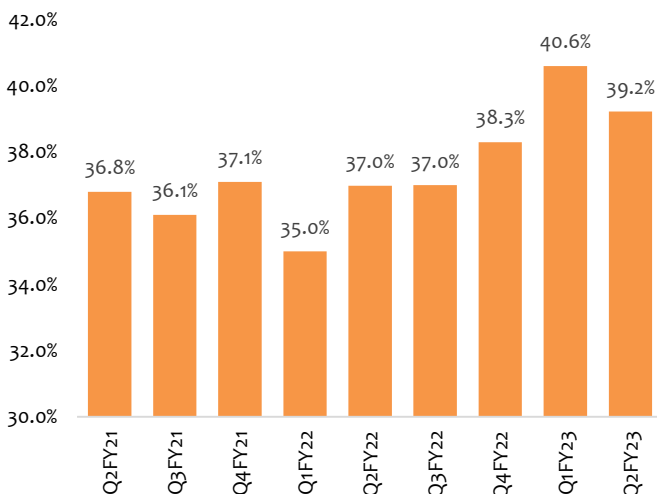
Net Interest Margins: Consistently stable



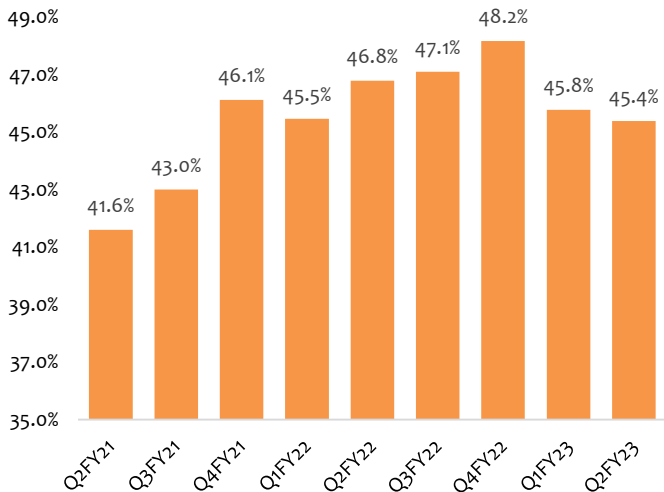
Asset Quality: Improves Sequentially



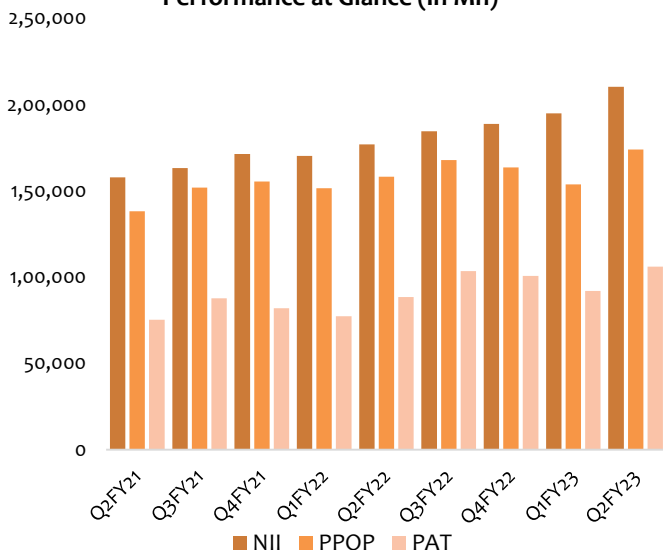
Cost/Income: Slight improvement



Healthy CASA levels to support sustainable growth



Performance at Glance (In Mn)



Source: Company, KRChoksey Research

HDFC Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY 20	FY 21	FY 22	FY 23E	FY 24E
Interest Income	11,48,127	12,08,581	12,77,531	16,41,912	19,41,263
Interest Expense	5,86,264	5,59,787	5,57,435	7,86,172	9,35,523
Net Interest Income	5,61,863	6,48,795	7,20,096	8,55,740	10,05,739
Non interest income	2,32,608	2,52,049	2,95,099	3,31,255	3,84,940
Operating income	7,94,471	9,00,844	10,15,195	11,86,995	13,90,679
- Employee expense	95,257	1,03,648	1,20,317	1,52,707	1,67,946
- Other operating expense	2,11,719	2,23,578	2,54,105	3,14,554	3,61,577
Operating Expense	3,06,975	3,27,226	3,74,422	4,67,260	5,29,522
PPOP	4,87,496	5,73,618	6,40,773	7,19,735	8,61,157
Provisions	1,21,424	1,57,029	1,50,618	1,35,513	1,61,138
PBT	3,66,072	4,16,589	4,90,155	5,84,221	7,00,019
Tax Expense	1,03,498	1,05,424	1,20,541	1,46,055	1,75,005
PAT	2,62,573	3,11,165	3,69,613	4,38,166	5,25,014
Diluted EPS (INR)	47.9	56.5	66.8	78.7	94.3

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY 20	FY 21	FY 22	FY 23E	FY 24E
Source of Funds					
Share capital	5,483	5,513	5,546	5,570	5,570
Reserves & Surplus	17,04,377	20,31,695	23,95,384	26,36,032	30,29,793
Networth	17,09,860	20,37,208	24,00,929	26,41,602	30,35,363
Borrowings	14,46,285	13,54,873	18,48,172	20,32,989	23,37,938
Deposits	1,14,75,023	1,33,50,602	1,55,92,174	1,82,42,844	2,13,44,127
Other liabilities & provisions	6,73,944	7,26,022	8,44,075	3,60,486	7,01,846
Total Equity & Liabilities	1,53,05,113	1,74,68,705	2,06,85,351	2,32,77,921	2,74,19,274
Uses of Funds					
Balance w/ RBI	7,22,051	9,73,407	14,12,000	11,73,927	12,67,841
Balance w/ banks & others	1,44,136	2,21,297	2,23,313	2,37,157	3,20,162
Net investments	39,18,267	44,37,283	45,55,357	54,72,853	64,03,238
Loans & advances	99,37,029	1,13,28,366	1,36,88,209	1,64,25,851	1,93,82,504
Fixed assets	44,319	49,093	60,837	69,962	80,457
Other assets	5,39,311	4,59,259	8,57,678	10,72,098	12,32,912
Total Assets	1,53,05,113	1,74,68,705	2,06,85,351	2,32,77,921	2,74,19,274

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 20	FY 21	FY 22	FY 23E	FY 24E
Growth Rates					
Advances (%)	21.3%	14.0%	20.8%	20.0%	18.0%
Deposits (%)	24.3%	16.3%	16.8%	17.0%	17.0%
Total assets (%)	22.7%	14.1%	18.4%	12.5%	17.8%
NII (%)	16.5%	15.5%	11.0%	18.8%	17.5%
Pre-provisioning profit (%)	22.6%	17.7%	11.7%	12.3%	19.6%
PAT (%)	24.6%	18.5%	18.8%	18.5%	19.8%
B/S Ratios					
Credit/Deposit (%)	86.6%	84.9%	87.8%	90.0%	90.8%
CASA (%)	42.2%	46.1%	48.2%	47.1%	46.0%
Advances/Total assets (%)	64.9%	64.8%	66.2%	70.6%	70.7%
Leverage - Total Assets to Equity	8.95	8.57	8.62	8.81	9.03
Operating efficiency					
Cost/income (%)	38.6%	36.3%	36.9%	39.4%	38.1%
Opex/total assets (%)	2.0%	1.9%	1.8%	2.0%	1.9%
Opex/total interest earning assets	2.4%	2.1%	2.1%	2.3%	2.2%
Profitability					
NIM (%)	4.4%	4.2%	4.0%	4.1%	4.2%
RoA (%)	1.9%	1.9%	1.9%	2.0%	2.1%
RoE (%)	16.4%	16.6%	16.7%	17.4%	18.5%
Asset quality					
Gross NPA (%)	1.3%	1.3%	1.2%	1.1%	1.0%
Net NPA (%)	0.4%	0.4%	0.3%	0.3%	0.3%
PCR (%)	96.0%	69.8%	72.7%	74.0%	74.0%
Slippage (%)	2.2%	1.9%	2.0%	1.8%	1.7%
Credit cost (%)	0.8%	1.5%	1.5%	0.9%	0.9%
Per share data / Valuation					
EPS (INR)	47.9	56.5	66.7	78.7	94.3
BVPS (INR)	311.8	369.9	432.9	474.3	544.9
ABVPS (INR)	305.4	361.6	425.0	465.8	535.6
P/E (x)	18.0	26.4	22.1	18.3	15.3
P/BV (x)	2.8	4.0	3.4	3.0	2.6
P/ABV (x)	2.8	4.1	3.5	3.1	2.7

Source: Company, KRChoksey Research

HDFC Bank Ltd.

HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-Oct-22	1,445	1,836	BUY	Buy	More than 15%
18-Jun-22	1,348	1,836	BUY		
18-Apr-22	1,395	1,997	BUY	Accumulate	5% – 15%
17-Jan-22	1,522	1,997	BUY	Hold	0 – 5%
18-Sept-21	1,675	1,997	BUY	Reduce	-5% – 0
19-Jul-21	1,471	1,720	BUY		
30-Jun-21	1,502	1,720	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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