

13 December 2022

Result Update – Q2FY23

- ❑ Net interest income for the quarter at Rs. 210 billion grew by 18.9% over prior year and 7.9% over prior quarter. The core net interest margin for the quarter was at 4.1% prior year was also at 4.1% and prior quarter was at 4%. Based on interest earning assets, the core net interest margin was at 4.3%.
- ❑ Other income for the quarter, which included Fees and commission income constituting 3/4th of other income was at Rs.58 billion and grew by 17% over prior year and 8% over prior quarter. Retail constitutes approximately 93% of the fees. The fixed and derivatives income at Rs.9.5 billion was higher by 9.3% compared to prior year.
- ❑ During the quarter operating expenses, which were at Rs.112.3 billion, an increase of 21% over prior year and an increase of 6.9% over prior quarter. HDFC bank added 1,813 branches and 2,226 ATMs since last year, 121 branches and 248 ATMs last quarter taking the total network strength to 6,499 branches, 18,868 ATMs and 15,691 business correspondence. Cost to income ratio for the quarter was at 39.2%.
- ❑ On the advances side, which were at 14.79 trillion grew by 6.1% sequentially and 23.4% over prior year. The retail advances growth was robust. Domestic retail grew by 21.4% YoY and 4.9% QoQ. Card spends have grown 9% over the prior quarter.
- ❑ Total deposits amounted to Rs. 16.73 trillion an increase of 4.3% over prior quarter and up 19% over prior year. In retail deposits, the bank added Rs. 710 billion during the quarter and Rs. 2,350 billion since September. Retail constitutes about 83% of total deposits, retail deposits have been the anchor of their deposit growth.
- ❑ The CASA deposits recorded a strong growth of 15.4% YoY ending the quarter at 7.59 trillion with the CASA ratio at 45.4%. Retail CASA grew by 19% and retail total deposits grew by 20.4% YoY. Term deposits registered a robust growth of 22% YoY ending the quarter at 9.13 trillion.
- ❑ On cards segment banks issued 1.2 million cards during the quarter. HDFC Bank Limited October 15, 2022. Total card base is now 16.3 million. During the quarter the bank also closed 2.4 million cards which have been inactive for a period of time in accordance with the RBI circular.
- ❑ HDFC bank Gold loan offering available at 2,960 branches an increase of 900 branches in the current quarter. Its two times over March 2022. Payment acceptance points have grown by 2,69,000 in the quarter to 3.5 million and have grown by over 1 million versus prior year growth of 41%.
- ❑ On the distribution expansion, HDFC bank has added 121 branches during the quarter and about 500 more branches are in various stages in the pipeline to be opened in the next few months. They have 15,691 business correspondence, an increase of 73 over the prior quarter.

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Q2-FY22 Result Update

- HDFC Bank already had a huge opportunity with the under-penetration of banking services in the country. The proposed merger adds an entirely different dimension to the future. We believe that the runway is huge. HDFC Bank's earnings trajectory remains on track with continued growth in retail. The ongoing expansion of branch network and cards business, coupled with the merger, is expected to aid long-term growth. Nevertheless, the bank's long-term outlook remains positive. We thereby retain our BUY rating on the stock, with a revised target price of Rs. 1,908.

Quarterly Results

Financial Results

| | Standalone | | | | | |
|-------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
| | Q2-FY23 | Q2-FY22 | Chg | H1-FY23 | H1-FY22 | Chg |
| Interest Income | 385,864 | 313,534 | 23.1% | 737,584 | 618,363 | 19.3% |
| Interest Expenses | 175,652 | 136,690 | 28.5% | 332,558 | 271,430 | 22.5% |
| Net Interest Income | 210,212 | 176,844 | 18.9% | 405,026 | 346,934 | 16.7% |
| Non-Interest Income | 75,956 | 74,008 | 2.6% | 139,838 | 136,893 | 2.2% |
| Operating Income | 286,167 | 250,852 | 14.1% | 544,864 | 483,826 | 12.6% |
| Operating Expenses | 112,246 | 105,018 | 6.9% | 217,264 | 174,383 | 24.6% |
| Operating Profit | 173,922 | 145,834 | 19.3% | 327,600 | 309,443 | 5.9% |
| Provisions | 32,401 | 39,247 | -17.4% | 64,279 | 87,555 | -26.6% |
| PBT | 141,520 | 106,587 | 32.8% | 263,322 | 221,888 | 18.7% |
| Tax | 35,463 | 30,483 | 16.3% | 65,304 | 56,249 | 16.1% |
| PAT | 106,058 | 76,104 | 39.4% | 198,018 | 165,640 | 19.5% |

| | Standalone | | | | | |
|--------------------|------------|----------|------|---------|---------|------|
| Margins | Q2-FY23 | Q2-FY2`2 | Chg | H1-FY23 | H1-FY22 | Chg |
| Operating Margin % | 54.5% | 56.4% | -193 | 54.9% | 56.1% | -119 |
| Net Margin % | 27.5% | 24.3% | 321 | 26.8% | 26.8% | 6 |

Source: Company, Anand Rathi Research

Consolidated Financials:

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|-----------------------------|-----------------|-----------------|-----------------|------------------|
| Interest earned | 12,08,582 | 12,77,531 | 15,78,224 | 18,28,787 |
| Interest expended | 5,59,787 | 5,57,435 | 6,49,586 | 7,43,336 |
| Net interest | 6,48,796 | 7,20,096 | 9,28,639 | 10,85,452 |
| Other Income | 2,52,049 | 2,95,099 | 3,02,380 | 3,32,450 |
| Total income | 9,00,845 | 10,15,195 | 12,31,019 | 14,17,902 |
| Operating expenses | 3,27,226 | 3,74,422 | 4,29,327 | 4,57,234 |
| Provision and contingencies | 1,57,028 | 1,50,618 | 1,81,045 | 1,82,856 |
| PBT | 4,16,590 | 4,90,155 | 6,20,646 | 7,77,812 |
| Tax | 1,05,425 | 1,20,541 | 1,61,368 | 2,02,231 |
| PAT | 3,11,165 | 3,69,614 | 4,59,278 | 5,75,581 |

| Margins | FY-21 | FY-22 | FY-23E | FY-24E |
|--------------------|--------|--------|--------|--------|
| Sales Growth % | 5.3% | 5.7% | 23.5% | 15.9% |
| PAT Growth % | 18.51% | 18.78% | 24.26% | 25.32% |
| Operating Margin % | 53.7% | 56.4% | 58.8% | 59.4% |
| Net Margin % | 25.7% | 28.9% | 29.1% | 31.5% |

Source: Company, Anand Rathi Research

| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|---------------------------|--------------------|--------------------|--------------------|--------------------|
| Liabilities | | | | |
| Equity Share Capital | 5,513 | 5,546 | 5,546 | 5,546 |
| Reserves & Surplus | 20,31,696 | 23,95,384 | 27,50,943 | 31,63,584 |
| Total Shareholder's Funds | 20,37,208 | 24,00,929 | 27,56,488 | 31,69,130 |
| Deposits | 1,33,50,602 | 1,55,92,174 | 1,82,42,844 | 2,13,44,128 |
| Borrowings | 13,54,873 | 18,48,172 | 20,32,989 | 22,36,288 |
| Other liabilities | 7,26,022 | 8,44,075 | 9,14,183 | 10,50,601 |
| Total | 1,74,68,705 | 2,06,85,351 | 2,39,46,504 | 2,78,00,147 |
| Assets | | | | |
| Cash and bank balances | 11,94,704 | 15,23,269 | 14,10,506 | 12,58,365 |
| Investments | 44,37,283 | 45,55,357 | 51,02,000 | 57,14,240 |
| Advances | 1,13,28,366 | 1,36,88,209 | 1,64,25,851 | 1,97,11,021 |
| Net assets | 49,536 | 61,279 | 64,702 | 78,730 |
| Lease adjustments | (442) | (442) | - | - |
| Other assets | 4,59,259 | 8,57,678 | 9,43,446 | 10,37,791 |
| Total | 1,74,68,705 | 2,06,85,351 | 2,39,46,504 | 2,78,00,147 |

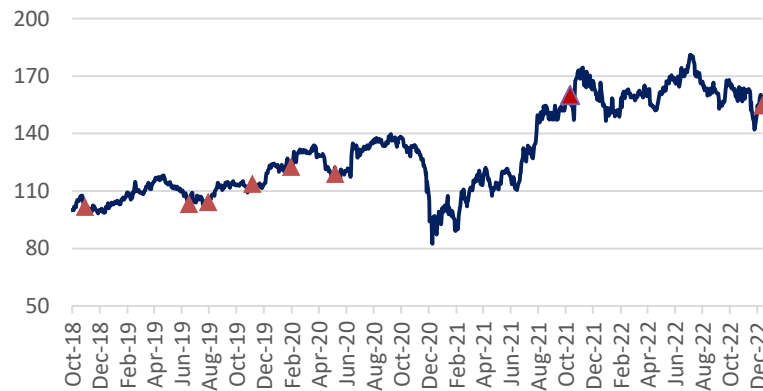
| (In ₹ mn) | FY-21 | FY-22 | FY-23E | FY-24E |
|-----------|--------|--------|--------|--------|
| EPS (₹) | 55.9 | 66.4 | 82.5 | 103.3 |
| P/E (x) | 29.5 | 24.9 | 20.0 | 16.0 |
| P/B (x) | 4.5 | 3.8 | 3.3 | 2.9 |
| ROE | 15.27% | 15.39% | 16.66% | 18.16% |

Key Risks:

- ❑ Higher-than-expected decline in CASA ratio
- ❑ Change in macro environment may impact cost of funds and consequently margins
- ❑ Lower than expected near term asset growth
- ❑ Merger uncertainty
- ❑ Higher than expected delinquencies due to the loan mix

Rating and Target Price history:

HDFC Bank rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 13 December 2022 close.

HDFC Bank rating details

| Date | Rating | Target Price (₹) | Share Price (₹) |
|--------------|--------|------------------|-----------------|
| 23-Oct-2018 | BUY | 1,210 | 962 |
| 17-Jun-2019 | BUY | 1,410 | 1,211 |
| 30-July-2019 | BUY | 1,410 | 1,126 |
| 05-Nov-2019 | BUY | 1,410 | 1,240 |
| 30-Jan-2020 | BUY | 1,410 | 1,226 |
| 07-May-2020 | BUY | 1,330 | 925 |
| 13-Dec-2022 | BUY | 1,908 | 1,650 |

Source: Bloomberg, Anand Rathi Research



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|----------------------------|-----|---------|-----------|
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