

January 14, 2023

RESULT REPORT Q3 FY23 | Sector: Banks

HDFC Bank

Wholesale loans de-grow due to unattractive pricing, while HDFCB accelerates branch addition

Result Highlights

- ✓ **Asset quality:** Annualized gross slippage ratio for 3QFY23 was 1.7% (Rs 66bn), with recoveries and upgrades amounting to Rs 31bn
- ✓ **Margin picture:** NIM at 4.1% was flat QoQ and excludes an impact of 5-6 bps or about Rs 3bn due to interest on income tax refund
- ✓ **Asset growth:** Advances grew 1.8%/19.5% QoQ/YoY, sequentially driven by Retail Loans and Commercial and Rural loan segments
- ✓ **Opex control:** Total opex rose 11%/26.5% QoQ/YoY, employee exp. grew 17.1%/30.8% QoQ/YoY and other exp. grew 8.3%/24.5% QoQ/YoY
- ✓ **Fee income:** Fees and commissions rose 4.3%/19.3% QoQ/YoY, sequentially driven by higher card spends and other business activity

Our view - Wholesale loans de-grow due to unattractive pricing, while HDFCB accelerates branch addition

Overall loan growth was dragged lower owing to HDFCB not finding wholesale loan pricing inadequate during the quarter: Wholesale loans (excluding IBPC) de-grew -1.1% QoQ since the bank deliberately gave up about Rs 300-400bn worth of wholesale loan business due to unattractive pricing. Management averred that there is no problem with wholesale loan demand, which is coming in from the NBFC, PSU, retail and infra segments and weakness in wholesale loan growth for the bank may be transient.

Opex ramped up materially driven by branch openings and employee addition, among other factors: 684 branches were added during the quarter, taking branch count to 7183. Also, 978 branches were activated for gold loans during the quarter, taking branches activated for gold loans to 3938. On the employee front, 5863 people were added during the quarter. There was a tranche of RSU and ESOP cost worth Rs 2.5-3bn.

Asset quality outcomes remained under control as the bank largely held on contingent provisions as a matter of abundant caution: Slippages for the quarter were Rs 66bn or 42 bps of advances (non-annualised). Covid-19 restructured book amounted to Rs 64bn or 42 bps of advances. Gross annualised credit cost for the quarter amounted to 74 bps. While there was a utilisation of contingent provisions worth Rs 2bn during the quarter, the bank is still monitoring the Covid situation and intends to keep the contingent provisions for now. All provisions taken together provide a 166% coverage on GNPA.

We reiterate BUY rating on HDFCB with a revised price target of Rs 2020: We value the standalone bank at 2.9x FY24 P/BV for an FY23E/24E/25E RoE profile of 14.6/14.7/15.6%. We assign a value of Rs 249 per share to the subsidiaries, on SOTP.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Total Interest Income	427,078	385,864	10.7	324,681	31.5
Interest expended	(197,199)	(175,652)	12.3	(140,246)	40.6
Net Interest Income	229,878	210,212	9.4	184,435	24.6
Other income	84,998	75,956	11.9	81,836	3.9
Total Income	314,877	286,167	10.0	266,270	18.3
Operating expenses	(124,636)	(112,246)	11.0	(98,511)	26.5
PPOP	190,241	173,922	9.4	167,760	13.4
Provisions	(28,064)	(32,401)	(13.4)	(29,940)	(6.3)
PBT	162,176	141,520	14.6	137,820	17.7
Tax	(39,581)	(35,463)	11.6	(34,398)	15.1
PAT	122,595	106,058	15.6	103,422	18.5

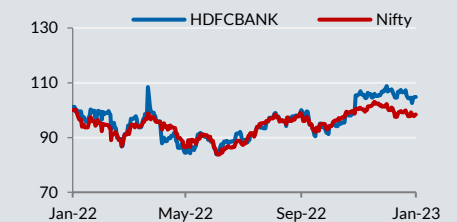
Source: Company, YES Sec-Research

Recommendation	: BUY
Current Price	: Rs 1601
Target Price	: Rs 2020
Potential Return	: 26%

Stock data (as on January 13, 2023)

Nifty	17,957
52 Week h/l (Rs)	1722 / 1272
Market cap (Rs/USD mn)	8919457 / 109737
Outstanding Shares (mn)	5,577
6m Avg t/o (Rs mn):	9,954
Div yield (%):	1.0
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



	1M	3M	1Y
Absolute return	-3.7%	11.2%	3.6%

Shareholding pattern (As of Sept'22 end)

Promoter	20.9%
FII+DII	48.8%
Others	11.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2020	2000

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
NII	829,461	1,152,877	1,564,302
PPOP	655,921	955,137	1,300,028
Net Profit	371,724	530,217	747,484
Growth (%)	0.6	42.6	41.0
EPS (Rs)	67.0	71.4	100.6
BVPS (Rs)	487.0	605.5	686.6
P/E (x)	20.5	19.2	13.6
P/BV (x)	2.8	2.3	2.0
ROE (%)	14.6	14.7	15.6
ROA (%)	1.7	1.7	1.7
Tier-1 (%)	16.9	17.0	16.1

Δ in earnings estimates

Rs.	FY23E	FY24E	FY25E
EPS (New)	67.0	71.4	100.6
EPS (Old)	66.0	70.3	99.1
% change	1.5%	1.6%	1.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Loan growth

- ✓ Overall loan growth
 - Advances growth was 1.8% QoQ but, net of sell-down, the growth was 3.3% QoQ.
- ✓ Retail lending
 - Domestic retail loans grew 4.7% QoQ.
 - Credit cards
 - 1.2mn credit cards were added during the quarter compared with slightly less than 1 mn in the sequentially previous quarter.
 - The numbers of cards outstanding is 17mn.
 - Revolve rate
 - The revolve rate is about 65-70% of pre-Covid level.
 - There is no improvement and rather a decline of about 1% point but the bank expects the revolve rate to improve, ultimately.
- ✓ Wholesale lending
 - Wholesale loan growth suffered since the bank deliberately gave up business due to unattractive pricing.
 - The bank gave up about Rs 300-400bn worth of wholesale loan business due to this reason.
 - There is no problem with wholesale loan demand, which is coming in from the NBFC, PSU, retail and infra segments.

Asset quality

- ✓ Slippages and other NPA movement
 - Slippages
 - Slippages for the quarter were Rs 66bn or 42 bps of advances (not annualised).
 - Excluding the agri book, slippages amounted to Rs 53bn or 35 bps of advances.
 - Recoveries and upgrades
 - Recoveries and upgrades amounted to about Rs 31 bn or 21 bps of advances.
 - Write offs
 - Write offs also amounted to Rs 31bn or about 21 bps of advances.
 - Sale of NPA
 - Sale of NPA amounted to Rs 2bn for the quarter.
- ✓ Restructured book
 - Covid-19 restructured book amounted to Rs 64bn or 42 bps of advances.
 - Additional facilities of these borrowers that are not restructured amount to Rs 11bn or 8 bps.
 - Taken together, these exposures amount to 50 bps of advances.
- ✓ Provisions
 - P&L provisions
 - Net credit cost for the quarter amounted to 52 bps of advances, lower than 64 bps registered in the sequentially previous quarter and 69 bps a year ago.
 - There was a utilisation of contingent provisions worth Rs 2bn during the quarter.
 - The bank is still monitoring the Covid situation and intends to keep the contingent provisions for now.

(Con call takeaways continue on the next page)

- **Outstanding provisions**
 - PCR stood at 73% (this is Specific PCR).
 - General provisions amount to Rs 66bn.
 - Contingent provisions amount to Rs 94bn.
 - Floating provisions continue to be Rs 14.51bn.
 - All provisions taken together provide a 166% coverage on GNPA.

Operating expenses

- ✓ **Branch expansion**
 - 684 branches were added during the quarter, taking branch count to 7183.
 - The intention was to open about 1500-2000 branches (presumably in a 12-month period) and about 600 branches are in the pipeline.
 - 978 branches were activated for gold loans during the quarter, taking branches activated for gold loans to 3938.
- ✓ **Employee expenses**
 - 5863 people were added during the quarter.
 - 84% of employees are in customer-facing roles.
 - There was a tranche of RSU and ESOP cost worth Rs 2.5-3bn (presumably for the quarter).

Deposits traction

- ✓ **Total deposits**
 - 2.6mn new liability relationships were established during the quarter, up 12% YoY.
 - Total deposits grew 3.6% QoQ.
 - Share of retail in total deposits was 84%.
- ✓ **CASA deposits**
 - CASA ratio stood at 44%.
 - Retail CASA deposits grew 14% YoY.

Net interest margin

- ✓ **NIM level**
 - Core net interest margin was stable QoQ at 4.1%.
 - This excludes an impact of 5-6 bps or about Rs 3bn due to interest on income tax refund.
- ✓ **Margin comments**
 - While cost of deposits would rise, so would yield on assets due to the MCLR book.
 - The key factor for NIM is the share of retail loans, which has declined from ~55% some years ago to 45% of loan book.
- ✓ **Priority sector lending (PSL)**
 - Core PSL loans have grown at 35% YoY.
 - Overall, PSL is in the mid-40s plus in terms of share.
 - The bank's aim is to get the right share for agri and micro loans.

Merger process

- ✓ The final hearing of the NCLT is on 27th January.
- ✓ There are some other regulatory processes after that as well.

(Con call takeaways continue on the next page)

Fee income

- ✓ Share of retail business in total fees is 93%.
- ✓ **Payments business**
 - Share of payments business in total fees for the quarter was about 33% compared with 32% in the sequentially previous quarter.
 - Normally, the share is higher in the third quarter.

Exhibit 2: Key quarterly balance sheet / business data

Particulars (Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Gross Advances	15,205,030	14,932,500	1.8	12,721,600	19.5
Retail Excl. Agri	6,066,020	5,805,460	4.5	5,057,510	19.9
Commercial & Rural Excl. Agri	5,023,560	4,744,620	5.9	3,841,950	30.8
Agriculture	709,120	702,780	0.9	560,310	26.6
Corporates & Other Wholesale	3,922,540	3,967,790	(1.1)	3,261,820	20.3
IBPC/BRDS	(516,210)	(288,150)	79.1	0	NA
Total Deposits	17,332,040	16,734,080	3.6	14,459,181	19.9
CA deposits	2,277,450	2,299,510	(1.0)	2,101,950	8.3
SA deposits	5,352,060	5,297,450	1.0	4,710,290	13.6
Term deposits	9,702,530	9,137,120	6.2	7,646,941	26.9
Investments	5,272,767	5,191,159	1.6	4,225,853	24.8
Borrowings	2,107,621	2,068,783	1.9	1,904,253	10.7
Risk-weighted assets	15,362,720	14,778,550	4.0	12,674,260	21.2

Source: Company, YES Sec – Research

Exhibit 3: Key quarterly ratios

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
Net Interest Margin	4.10	4.10	0bps	4.10	0bps
Non-interest income/Total income	27.0	26.5	45bps	30.7	-374bps
Fee Income to Avg. Total Assets	1.3	1.2	2bps	1.3	-1bps
Cost to Income ratio	39.6	39.2	36bps	37.0	259bps
Opex to Avg. Total Assets	2.2	2.1	13bps	2.1	12bps
CASA ratio	44.0	45.4	-138bps	47.1	-309bps
Loan to Deposit ratio	86.9	88.4	-150bps	87.2	-26bps
Capital adequacy ratio	19.4	18.0	140bps	19.5	-10bps
Tier I capital ratio	17.2	17.1	10bps	18.4	-120bps
Common equity tier 1	16.4	16.3	10bps	17.1	-70bps
Annualised Slippage Ratio	1.7	1.4	24bps	1.6	8bps
Provisions /Avg. Advances	0.8	0.9	-15bps	1.0	-22bps
RoA	2.2	2.0	20bps	2.2	0bps
Gross NPA	1.2	1.2	0bps	1.3	-3bps
Net NPA	0.3	0.3	0bps	0.4	-4bps

Source: Company, YES Sec – Research

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY23 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	229,878	218,793	5.1
Pre-Prov. Operating Profit	190,241	184,907	2.9
Profit After Tax	122,595	111,680	9.8

Source: Company, YES Sec – Research

Exhibit 5: Gross Advances Mix - Quarterly

Particulars (Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy	Q3 FY23 (%)*	chg qoq*	chg yoy*
Personal Loans	1,646,410	1,548,200	6.3	1,333,990	23.4	10.8	46bps	34bps
Auto Loans	1,124,420	1,087,880	3.4	964,260	16.6	7.4	11bps	-18bps
Home Loans	975,930	930,500	4.9	789,920	23.5	6.4	19bps	21bps
Payment Products	833,140	819,660	1.6	733,050	13.7	5.5	-1bps	-28bps
Loan against Property	724,360	693,130	4.5	577,360	25.5	4.8	12bps	23bps
Two Wheelers	97,590	95,970	1.7	92,880	5.1	0.6	0bps	-9bps
Gold Loans	100,420	94,340	6.4	81,980	22.5	0.7	3bps	2bps
Other Retail	563,740	535,800	5.2	484,070	16.5	3.7	12bps	-10bps
Total Retail Assets	6,066,020	5,805,460	4.5	5,057,510	19.9	39.9	102bps	14bps
Emerging Corporates	1,706,230	1,645,580	3.7	1,364,210	25.1	11.2	20bps	50bps
Business Banking	2,320,490	2,180,140	6.4	1,736,440	33.6	15.3	66bps	161bps
Commercial Transportation	996,840	918,900	8.5	741,300	34.5	6.6	40bps	73bps
Agriculture	709,120	702,780	0.9	560,310	26.6	4.7	-4bps	26bps
Total Commercial & Rural Banking	5,732,680	5,447,400	5.2	4,402,260	30.2	37.7	122bps	310bps
Corporates & Other Wholesale	3,922,540	3,967,790	(1.1)	3,261,820	20.3	25.8	-77bps	16bps
IBPC/BRDS	(516,210)	(288,150)	79.1	0	NA	(3.4)	-147bps	-339bps
Total Gross Advances	15,205,030	14,932,500	1.8	12,721,600	19.5	100.0	0bps	0bps

Source: Company, YES Sec – Research, *Share in total gross advances and change in share

Exhibit 6: Operating Expense Break-up

(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Employee Expense	41,262	35,238	17.1	31,544	30.8
Other Operating Expense	83,374	77,007	8.3	66,967	24.5
Total Operating Expense	124,636	112,246	11.0	98,511	26.5

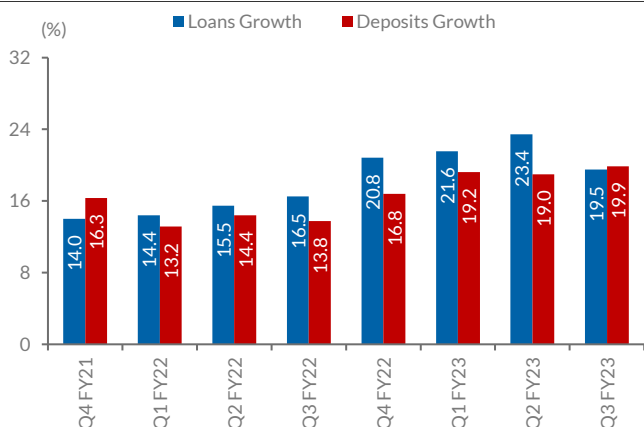
Source: Company, YES Sec – Research

Exhibit 7: Non-Interest Income Break-up

(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
Fees & commissions	60,526	58,029	4.3	50,751	19.3
Foreign exchange & derivatives	10,741	9,478	13.3	9,495	13.1
P/L on sale / revaluation of investments	2,614	(2,531)	(203.3)	10,465	(75.0)
Miscellaneous income	11,118	10,979	1.3	11,125	(0.1)
Total Non-Interest Income	84,999	75,955	11.9	81,836	3.9

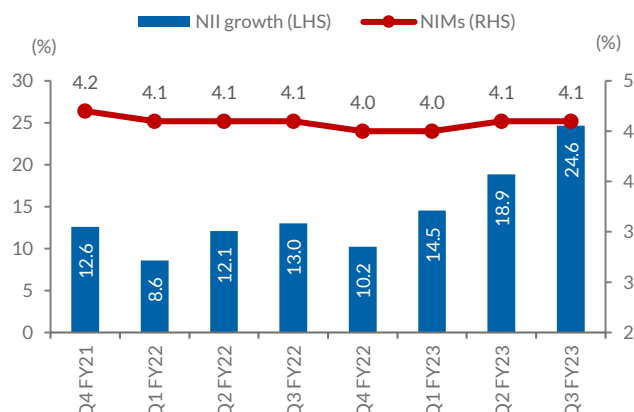
Source: Company, YES Sec – Research

Exhibit 8: Loans and Deposits growth (YoY %)



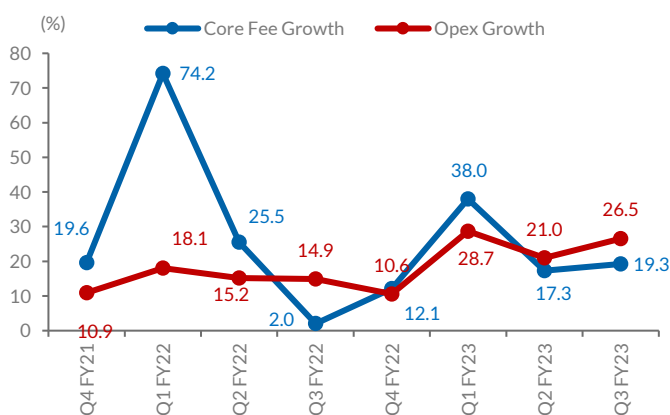
Source: Company, YES Sec - Research

Exhibit 9: NII growth (YoY %) and NIM



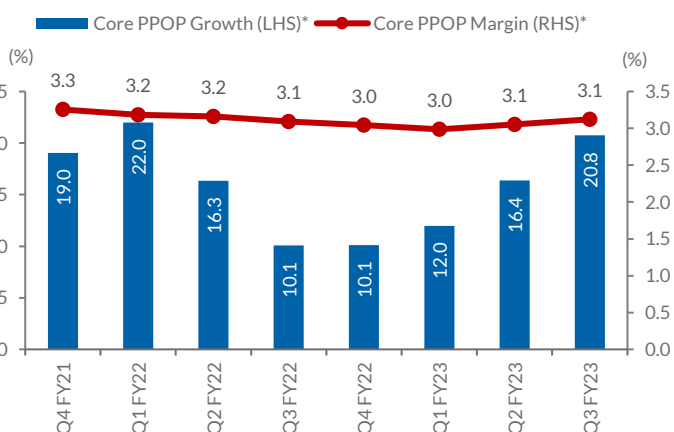
Source: Company, YES Sec - Research

Exhibit 10: Core Fee and Opex growth (YoY %)



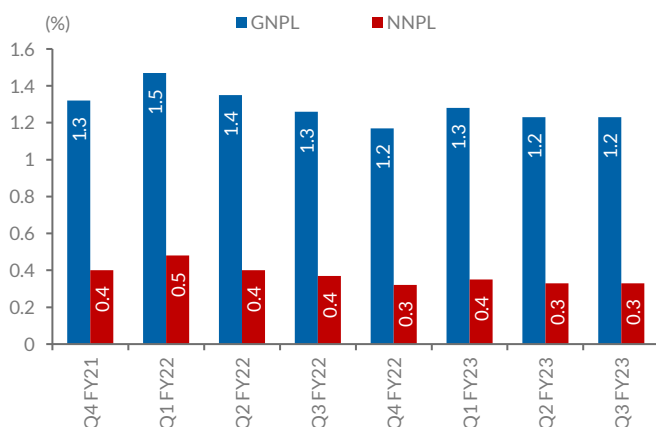
Source: Company, YES Sec - Research

Exhibit 11: Core PPOP growth (YoY %) and Core PPOP margin



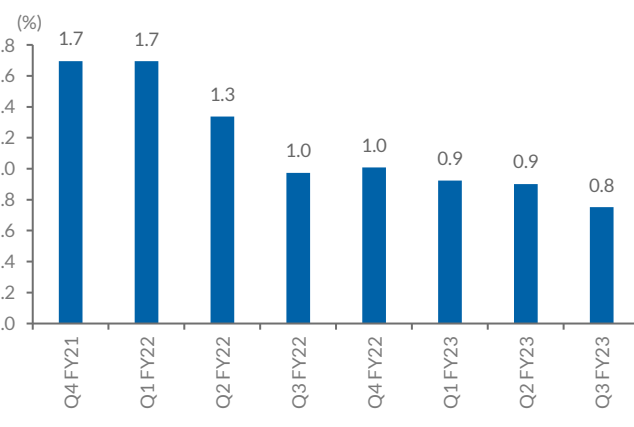
Source: Company, YES Sec - Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 12: Gross NPA and Net NPA (%)



Source: Company, YES Sec - Research

Exhibit 13: Provisions/Average Advances (%)



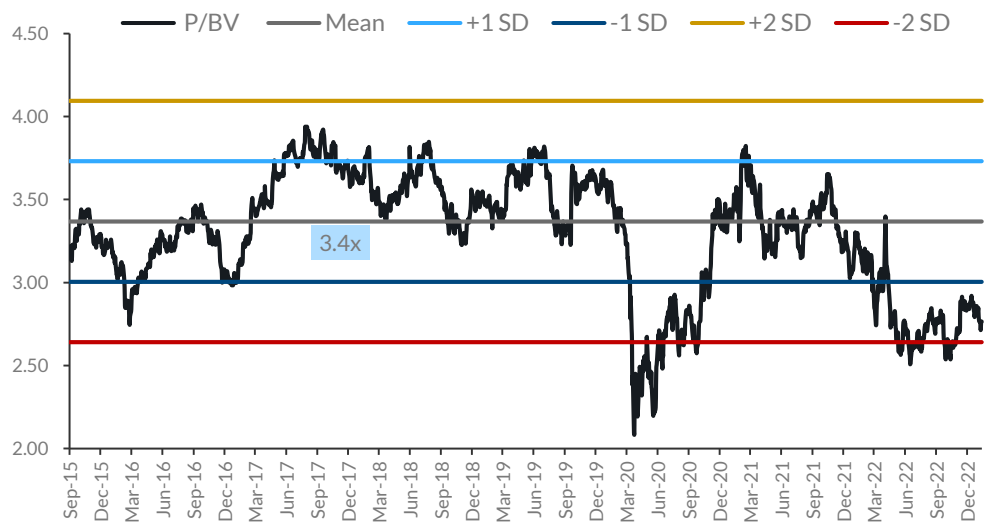
Source: Company, YES Sec - Research

Exhibit 14: 1-year rolling P/BV band



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 15: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total cash & equivalents	1,194,704	1,523,269	1,791,787	2,966,409	3,559,691
Investments	4,437,283	4,555,357	5,085,889	7,969,054	9,425,291
Advances	11,328,366	13,688,209	16,288,969	26,967,358	32,360,829
Fixed assets	49,093	60,837	66,920	73,612	80,974
Other assets	459,259	857,678	1,029,214	1,235,057	1,482,068
Total assets	17,468,705	20,685,351	24,262,779	39,211,490	46,908,854
Net worth	2,037,208	2,400,929	2,700,539	4,499,137	5,101,609
Deposits	13,350,602	15,592,174	18,453,010	29,665,318	35,058,790
Borrowings	1,354,873	1,848,172	2,160,263	3,441,670	4,088,886
Other liabilities	726,022	844,075	948,967	1,605,365	2,659,568
Total liabilities incl. Equity	17,468,705	20,685,351	24,262,779	39,211,490	46,908,854

Source: Company, YES Sec – Research

Exhibit 17: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	1,208,582	1,277,531	1,542,956	2,230,003	3,083,325
Interest expense	(559,787)	(557,435)	(713,495)	(1,077,126)	(1,519,022)
Net interest income	648,796	720,096	829,461	1,152,877	1,564,302
Non-interest income	252,049	295,099	309,150	454,387	607,104
Total income	900,845	1,015,195	1,138,611	1,607,264	2,171,406
Operating expenses	(327,226)	(374,422)	(482,689)	(652,127)	(871,378)
PPoP	573,618	640,773	655,921	955,137	1,300,028
Provisions	(157,029)	(150,618)	(160,289)	(248,181)	(303,383)
Profit before tax	416,590	490,155	495,632	706,956	996,645
Taxes	(105,425)	(120,541)	(123,908)	(176,739)	(249,161)
Net profit	311,165	369,614	371,724	530,217	747,484

Source: Company, YES Sec – Research

Exhibit 18: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	7.4	6.7	6.9	7.0	7.2
Interest expense	-3.4	-2.9	-3.2	-3.4	-3.5
Net interest income	4.0	3.8	3.7	3.6	3.6
Non-interest income	1.5	1.5	1.4	1.4	1.4
Total income	5.5	5.3	5.1	5.1	5.0
Operating expenses	-2.0	-2.0	-2.1	-2.1	-2.0
PPoP	3.5	3.4	2.9	3.0	3.0
Provisions	-1.0	-0.8	-0.7	-0.8	-0.7
Profit before tax	2.5	2.6	2.2	2.2	2.3
Taxes	-0.6	-0.6	-0.6	-0.6	-0.6
Net profit	1.9	1.9	1.7	1.7	1.7

Source: Company, YES Sec – Research

Exhibit 19: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
HDB Financial Services	392,944	BV	98236	4.0x	95.0%	373,140	67.3
HDFC Securities	49,341	BV	16,447	3.0x	96.3%	47,535	8.6
HDFC AMC	459,340	Mcap	404,570	1.0x	52.6%	241,567	43.6
HDFC Life	1,299,170	Mcap	1,265,620	1.0x	47.8%	620,873	112.0
HDFC ERGO	150,039	PE	5,001	30.0x	50.6%	75,920	13.7
Bandhan Bank	427,590	Mcap	525,030	1.0x	5.0%	21,166	3.8
Value of Subsidiaries						420,675	248.9

Source: Company, YES Sec – Research

Exhibit 20: Change in Annual Estimates

Y/e 31 Mar (Rs. mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Interest Income	829,461	1,152,877	1,564,302	829,461	1,152,877	1,564,302	0.0	0.0	0.0
Pre-Prov. Operating Profit	655,921	955,137	1,300,028	655,921	955,137	1,300,028	0.0	0.0	0.0
Profit after tax	371,724	530,217	747,484	366,103	522,106	736,360	1.5	1.6	1.5

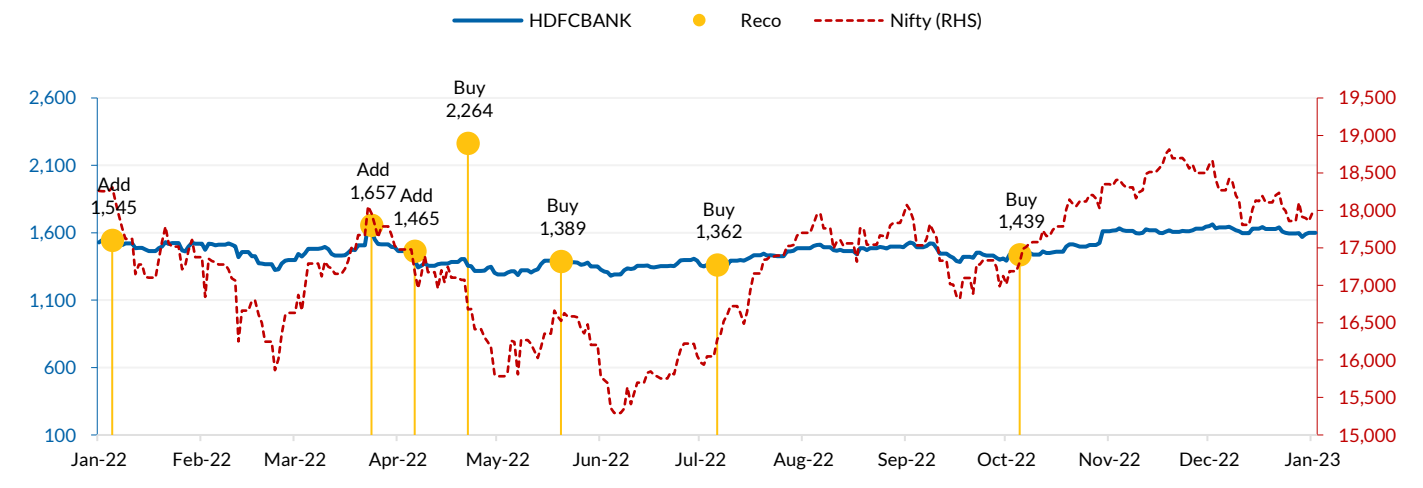
Source: Company, YES Sec – Research

Exhibit 21: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Net interest income	15.5	11.0	15.2	39.0	35.7
PPoP	17.7	11.7	2.4	45.6	36.1
Net profit	18.5	18.8	0.6	42.6	41.0
Loans	14.0	20.8	19.0	65.6	20.0
Deposits	16.3	16.8	18.3	60.8	18.2
Profitability Ratios (%)					
Net interest margin	4.2	4.0	4.0	3.9	3.8
Return on Average Equity	16.6	16.7	14.6	14.7	15.6
Return on Average Assets	1.9	1.9	1.7	1.7	1.7
Per share figures (Rs)					
EPS	56.4	66.7	67.0	71.4	100.6
BVPS	370	433	487	606	687
ABVPS	361	425	475	595	675
Valuation multiples					
P/E	24	20.3	20.2	18.9	13.4
P/BV	3.7	3.1	2.8	2.2	2.0
P/ABV	3.7	3.2	2.8	2.3	2.0
NIM internals (%)					
Yield on loans	8.9	7.9	8.1	8.2	8.3
Cost of deposits	4.0	3.4	3.7	3.9	4.1
Loan-deposit ratio	84.9	87.8	88.3	90.9	92.3
CASA ratio	46.1	48.2	46.6	37.0	37.0
Opex control (%)					
Cost/Income ratio	36.3	36.9	42.4	40.6	40.1
Cost to average assets	2.0	2.0	2.1	2.1	2.0
Capital adequacy (%)					
Tier 1 capital ratio	17.6	17.9	16.9	17.0	16.1
Asset quality (%)					
Slippage ratio	1.5	2.1	1.4	1.2	1.2
Gross NPL ratio	1.3	1.2	1.6	1.3	1.5
Credit cost	1.5	1.2	1.0	1.0	1.0
Net NPL ratio	0.4	0.3	0.4	0.3	0.3

Source: Company, YES Sec – Research; Valuations are the implied valuation of standalone entity net of subsidiaries

Recommendation Tracker



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