

HDFC Bank Ltd.



HDFC Bank Ltd.

Liability franchise strengthens; Higher OpEx led by branch expansion

CMP INR 1,586	Target INR 1,960	Potential Upside 23.6%	Market Cap (INR Mn) INR 88,43,619	Recommendation BUY	Sector Banks
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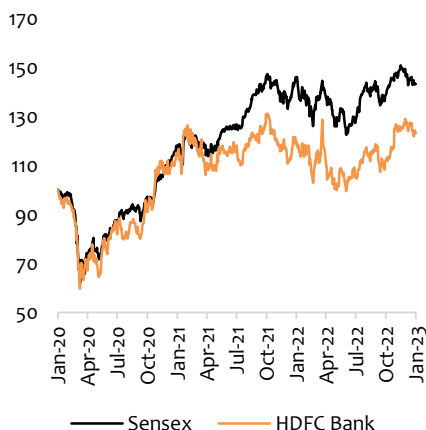
Result Highlights for Q3FY23:

- Net Interest Income (NII) for Q3FY23 stood at INR 2,29,878 Mn, a growth of 24.6% YoY/ 9.4% QoQ led by robust growth in advances and improvement in yields. The Core NIMs were stable at 4.1% in Q3FY23, an improvement of 10 bps YoY.
- Pre-Provision Operating Profits (PPOP) grew 13.4% YoY/ 9.4% QoQ at INR 1,90,241 Mn.
- Net Profit stood at INR 1,22,595 Mn, an increase of 18.5% YoY/ 15.6% QoQ led by healthy growth in operating profits and lower YoY/ QoQ provisions.
- The GNPA were 1.23% as of December 31, 2022, vs a comparable 1.26% as of December 31, 2021. NNPA for the quarter ended stood at 0.33% vs 0.37% as of December 31, 2021, of the net advances.
- Advances as of December 31, 2022, were reported at INR 1,50,68,093 Mn, a growth of 19.5% YoY/ 1.8% QoQ. The deposit grew by 19.9% YoY/ 3.6% QoQ at INR 1,73,32,040 Mn

MARKET DATA

Shares outs (Mn)	5,570
Equity Cap (INR Mn)	26,75,424
Mkt Cap (INR Mn)	88,43,619
52 Wk H/L (INR)	1,722/1,272
Volume Avg (3m K)	6,225
Face Value (INR)	1
Bloomberg Code	HDFCB IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,093
NIFTY	17,895

KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
NII	6,48,795	7,20,096	8,68,313	10,09,898	12,01,643
PPOP	5,73,618	6,40,773	7,19,272	8,44,092	9,86,046
PAT	3,11,165	3,69,613	4,41,207	5,18,930	6,04,850
EPS (INR / Share)	56.5	66.7	79.1	93.1	108.5
BVPS (INR / Share)	369.9	432.9	474.1	543.9	625.2
NIM (%)	4.2%	4.0%	4.2%	4.2%	4.3%
Advances Growth YoY (%)	14.0%	20.8%	20.0%	18.0%	18.0%

Source: Company, KRChoksey Research

Advances continues to grow led by CRB and retail segment; Deposits trend picked-up: HDFCB registered a sturdy loan book growth of 19.5% YoY/ 1.8% QoQ in Q3FY23 at INR 1,50,68,093 Mn. The growth was mainly driven by Commercial & Rural Banking (CRB) Loans and domestic retail loans. The CRB loans reported an increase of 30.0% YoY/ 5.0% QoQ. The wholesale lending book witnessed a growth of 20.0% YoY, while sequentially, it de-grew by 1.0% in Q3FY23. The Bank had deliberately taken a hit of INR 300-400 Bn on the wholesale loan owing to lower pricing. The Bank has been diversifying its wholesale revenue pools from new customers, products and sectors led by the corporate bank initiatives. HDFCB expects demand for loans from the NBFCs, telecom, and PSU retail infrastructure sector to remain healthy. The retail loan book saw a resilient growth of 19.9% YoY/ 4.5% QoQ. Within the retail segment, home loans grew by 23.5% YoY/ 4.9% QoQ, while the auto segment grew by 16.6% YoY/ 3.4% QoQ. The personal loan grew 23.4% YoY/ 6.3% QoQ, led by the festive season. On the deposits front, CASA reported a growth of 12.0% YoY and contributed to 44.0% of overall deposits. Retail deposits continued to see improvement in the share at 84.0% as of December 31, 2022. We expect the loan book to grow at a CAGR of 18.7% over FY22-25E, driven by buoyant growth momentum across the segments. We expect deposits to grow by 17.7% CAGR over FY22-25E, with sustainable contribution from retail deposits and continued focus on granular current account deposits.

Asset quality remains stable with improvement in credit costs: The GNPA/ NNPA stood at 1.23%/ 0.33%, registering an improvement of 3 bps/ 4 bps YoY, respectively, while sequentially stable. The GNPA excluding NPAs in the agricultural segment stood at 1.0% vs 1.04% as of December 31, 2021. The slippage ratio for Q3FY23 stood at 0.42%, while total slippages amounted to INR 66 Bn. The recoveries and upgrades were about INR 31 Bn Mn, while write-offs were also at INR 31 Bn in Q3FY23. The sale of NPA during the quarter stood at INR 2 Bn. Restructuring under the RBI Resolution Framework for COVID-19 as of December 31, 2022, stood at 42 bps. The Bank reported the total provisions of INR 28,064 Mn with credit cost at 0.74%, showing an improvement of 20 bps YoY/ 13 bps QoQ. We believe provisions will remain at an adequate level going ahead. We continue to expect GNPA/ NNPA to be stable at 1.2%/0.3% in FY24E with the moderation of the slippages.

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	25.6	25.7	25.8
FIIIs	32.1	32.3	35.6
DIIIs	27.7	27.3	24.7
Others	14.5	14.7	13.9
Total	100.0	100.0	100.0

18.6%

NII CAGR between FY22 and FY25E

17.8%

PAT CAGR between FY22 and FY25E

ANALYST

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Earnings growth led by strong NII and lower provisions: The NII for the quarter grew by 24.6% YoY/ 9.4% QoQ with NIMs improving by 10 bps QoQ led by asset repricing and one-off interest on tax refund, which contributed approximately 6 bps to the overall NIM. HDFCB remains optimistic about the sustainable margin run-rate on the back of the improving loan book mix and healthy growth trajectory in retail deposits. We expect margins to see gradual improvement led by the improving asset mix, the repricing of asset and tighter control on the cost of funds with a focus on granular deposits. HDFCB reported a 3.9% YoY/ 11.9% QoQ growth in the non-interest income, with core fee & commission income growing by 19.3% YoY. Excluding the trading and MTM losses for the quarter, the Bank reported an overall other income growth of 15.4% YoY. The net trading and mark-to-market income of INR 2,614 Mn vs INR 10,465 Mn in Q3FY22 and miscellaneous income, including recoveries and dividends, of INR 11,118 Mn (INR 11,125 Mn in Q3FY22). HDFCB continued to report higher operating expenses by 26.5% YoY/ 8.3% QoQ on account of higher employee costs by 30.8% YoY and other expenses by 24.5% YoY. The higher expenditures were led by the expansion of branches during the quarter. The Bank added 684 branches in Q3FY23. Thus, the cost-to-income ratio for the quarter stood at 39.6%, higher by 259 bps YoY and 36 bps QoQ. We expect the cost-to-income ratio will be in the range of ~40.0% for FY24E, given its aggressive spending on expanding branches and enhancing digital initiatives. Fee income will continue to see strong growth, given the positive trajectory of the overall business momentum.

Key Concall Highlights:

Macro Update:

1. High frequency indicators suggest that domestic economic activity held up in Q3FY23. GST collections continued to be robust and remained above INR 1.4 Tn since May-22. In December GST collections stood at INR 1.5 Tn compared to INR 1.3 Tn in the prior year December. Manufacturing PMI has remained in the expansionary zone and is at 57.8 as of December. The services PMI was at a six-month high of 58.5 in December.
2. Healthy trend in government capital spending also bodes well for industrial activity, as the total spend has reached almost 60% of budget estimates during April to November versus 49% in the prior year.
3. On the consumption side, HDFCB had card spends growing at the rate of 27% YoY, reflecting good consumer demand.
4. Rabi crop sowing looks encouraging and is up 4.5% above last year's level.
5. RBI raised the policy rate by 35 bps to 6.25% in December-22 and kept the policy stance unchanged at withdrawal of accommodation.
6. The strong consumer demand boosted by fiscal spends and higher agri produced from rabi crop are likely to keep the Indian economy stimulated. HDFCB estimates the GDP growth to be around 7% for the full year FY23E.

Operational Update:

1. On the distribution, the bank added 684 branches in Q3FY23, totalling 841 branches for YTD FY23. Its rural business reach expanded to 0.15 Mn villages and is on track to reach the objective of 0.2 Mn villages.
2. On cards, it has issued 1.2 Mn cards during the quarter, total card base is 17 Mn as of December 30, 2022.
3. Corporate Bank initiatives across new-to-bank PLI, MNC and supply chain finance, continue to be a focus, allowing to diversify revenue pools from new customers, products and sector.
4. The bank expects demand from loans from NBFC telecom PSUs retail and infrastructure sectors to sustain.
5. On the digital front, the bank continued its momentum on the technology and digital transformation agenda to provide greater customer experience, through its Digital and Enterprise Factory.
6. SmartHub Vyapar, the bank's one-stop merchant solutions app has further enhanced with the addition of new features in the current quarter such as instant QR, a revamp of ETB journey and enabling onboarding of new-to-bank customers digitally. As of December 31, 2022, over 1.9 Mn small businesses were on smarter platform, the platform is adding more than 80,000 merchants per month.
7. Net trading on Mark-To-Market (MTM) income were positive INR 2,610 Mn. The MTM gains are mainly from AFS investments.
8. The contingent provisions and floating provisions were close to prior quarter level at INR 108 Bn after utilization of INR 2 Bn.
9. For HBD Financial Services, the momentum in disbursements continued across all business segments in Q3FY23, registering a healthy growth of 41% YoY, 18% QoQ.
10. HDFC Securities Limited added nearly 0.9 Mn new clients in 12 months to December, taking the client base to 4.3 Mn. The total reported revenue for the quarter was INR 5,050 Mn for HSL against INR 5,360 Mn in Q3FY22. The net profit after tax was INR 2,030 Mn as against INR 2,580 Mn in Q3FY22.
11. The tailwinds from the economic momentum, fiscal and monetary policies have provided conducive environment for growth, by delivery of our full suite of products and services

Valuation and view:

HDFCB reported robust growth in Q3FY23, led by growth across all its key businesses. The growth in advances saw an upward trend despite a sequential fall in the wholesale loan book. The Bank deliberately took the decline in the wholesale book due to lower pricing and yields. The Bank remains optimistic about the wholesale book led by the NBFC & infra segment. The Bank saw the strengthening of the liability franchise with 84% contribution from retail deposits, which will aid in improving margins. We expect the asset quality to remain stable under normalized circumstances with modest slippages and healthy recoveries and upgrades of the stressed books, which will eventually result in sustained lower credit costs for FY24E-25E. We expect CAGR in NII at 18.6%, PPOp at 15.5%, and PAT at 17.8% over FY22-25E. Since our last update, the share price of HDFC Bank Ltd. has appreciated by 9.7% and is currently trading at 3.0x/ 2.6x FY24E/ FY25E P/ABV, respectively. We see HDFCB's current valuation re-rate on the back of a) strong business momentum, b) increasing mix of the high yield loan segment & focus on granular liability franchise, c) stable margins outlook, and d) synergies from the HDFC & HDFCB merger. We have not built HDFCB and HDFC Ltd merged numbers into the model currently. **We roll over our valuation to FY25E and revise our target price at INR 1,960 per share (earlier INR 1,836), implying a P/ABV multiple of 3.2x to the adjusted book value of INR 612 per share for FY25E, showing an upside of 23.6% over the CMP. Accordingly, we reiterate our BUY rating on the shares of HDFC Bank Ltd.**

ANALYST

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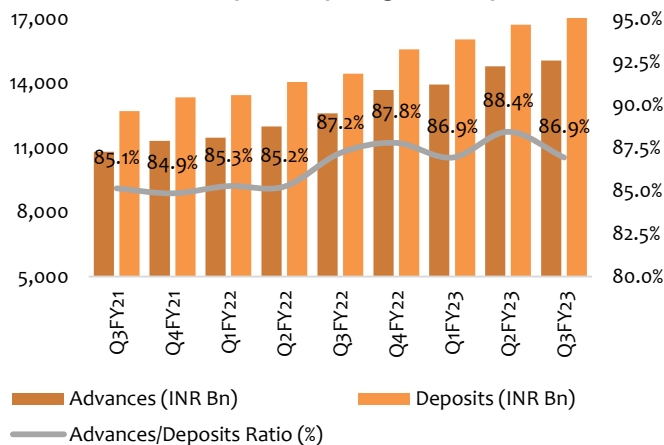
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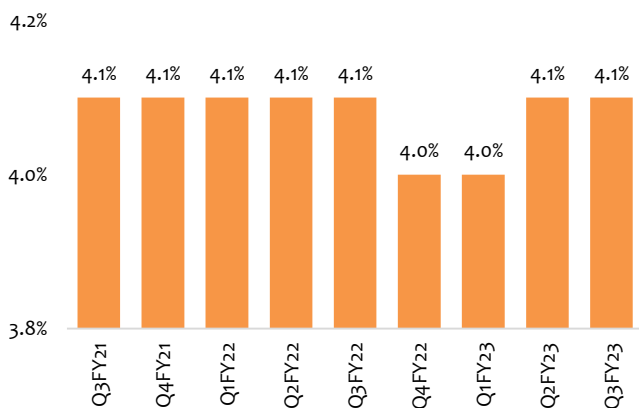
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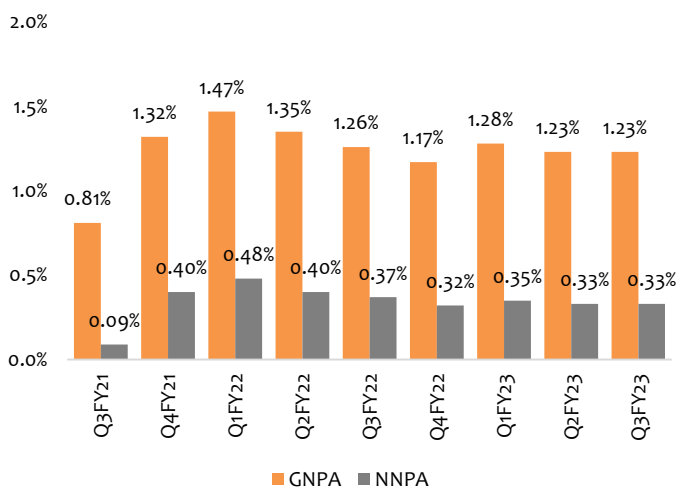
Advance/Deposit: Deposit growth improves



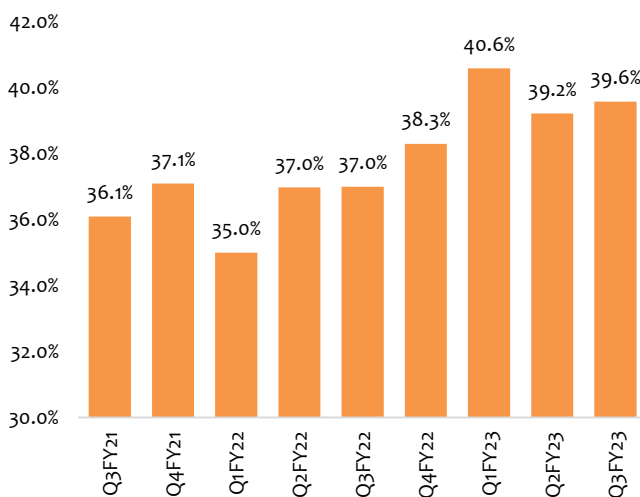
Net Interest Margins: Includes One-off impact of 60 bps owing to interest from tax refunds



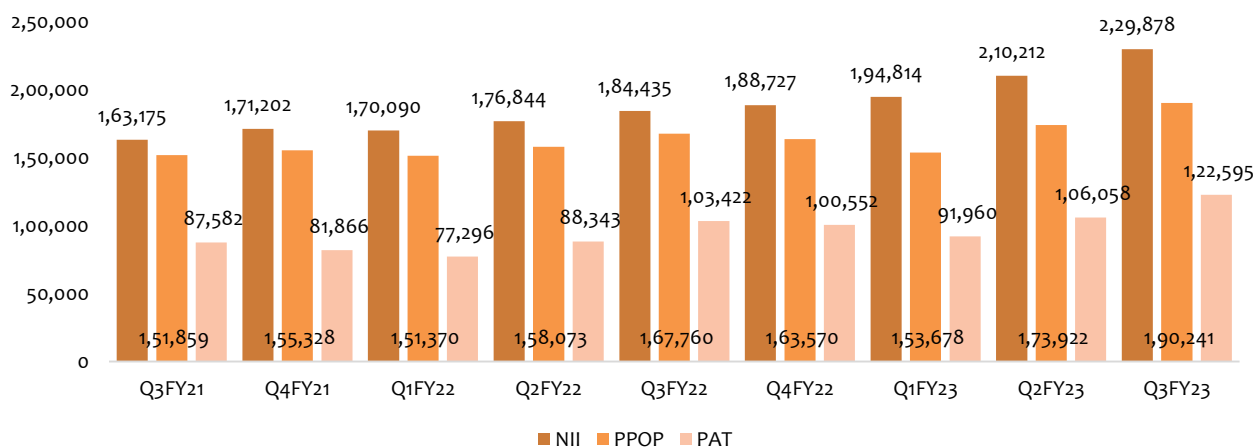
Asset Quality: Sequentially stable



Cost/Income: Higher operating expenses



Performance at Glance (In Mn)



Source: Company, KRChoksey Research

HDFC Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Interest Income	12,08,581	12,77,531	16,31,877	19,96,695	23,86,352
Interest Expense	5,59,787	5,57,435	7,63,564	9,86,797	11,84,709
Net Interest Income	6,48,795	7,20,096	8,68,313	10,09,898	12,01,643
Non interest income	2,52,049	2,95,099	3,31,255	3,93,892	4,22,539
Operating income	9,00,844	10,15,195	11,99,567	14,03,790	16,24,181
- Employee expense	1,03,648	1,20,317	1,56,412	1,87,694	2,15,848
- Other operating expense	2,23,578	2,54,105	3,23,883	3,72,004	4,22,287
Operating Expense	3,27,226	3,74,422	4,80,295	5,59,699	6,38,136
PPOP	5,73,618	6,40,773	7,19,272	8,44,092	9,86,046
Provisions	1,57,029	1,50,618	1,30,996	1,52,186	1,79,579
PBT	4,16,589	4,90,155	5,88,276	6,91,906	8,06,467
Tax Expense	1,05,424	1,20,541	1,47,069	1,72,977	2,01,617
PAT	3,11,165	3,69,613	4,41,207	5,18,930	6,04,850
Diluted EPS (INR)	56.5	66.8	79.1	93.1	108.5

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Source of Funds					
Share capital	5,513	5,546	5,577	5,577	5,577
Reserves & Surplus	20,31,695	23,95,384	26,38,313	30,27,510	34,81,147
Networth	20,37,208	24,00,929	26,43,889	30,33,087	34,86,724
Borrowings	13,54,873	18,48,172	20,79,194	23,91,073	27,49,734
Deposits	1,33,50,602	1,55,92,174	1,82,42,844	2,15,26,556	2,54,01,336
Other liabilities & provisions	7,26,022	8,44,075	3,11,994	5,26,023	7,45,357
Total Equity & Liabilities	1,74,68,705	2,06,85,351	2,32,77,921	2,74,76,739	3,23,83,150
Uses of Funds					
Balance w/ RBI	9,73,407	14,12,000	11,73,927	12,78,677	15,08,839
Balance w/ banks & others	2,21,297	2,23,313	2,37,157	3,22,898	3,81,020
Net investments	44,37,283	45,55,357	54,72,853	64,57,967	76,20,401
Loans & advances	1,13,28,366	1,36,88,209	1,64,25,851	1,93,82,504	2,28,71,355
Fixed assets	49,093	60,837	69,962	80,457	92,525
Other assets	4,59,259	8,57,678	10,72,098	12,32,912	14,17,849
Total Assets	1,74,68,705	2,06,85,351	2,32,77,921	2,74,76,739	3,23,83,150

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Growth Rates					
Advances (%)	14.0%	20.8%	20.0%	18.0%	18.0%
Deposits (%)	16.3%	16.8%	17.0%	18.0%	18.0%
Total assets (%)	14.1%	18.4%	12.5%	18.0%	17.9%
NII (%)	15.5%	11.0%	20.6%	16.3%	19.0%
Pre-provisioning profit (%)	17.7%	11.7%	12.3%	17.4%	16.8%
PAT (%)	18.5%	18.8%	19.4%	17.6%	16.6%
B/S Ratios					
Credit/Deposit (%)	84.9%	87.8%	90.0%	90.0%	90.0%
CASA (%)	46.1%	48.2%	47.1%	45.6%	44.2%
Advances/Total assets (%)	64.8%	66.2%	70.6%	70.5%	70.6%
Leverage - Total Assets to Equity	8.57	8.62	8.80	9.06	9.29
Operating efficiency					
Cost/income (%)	36.3%	36.9%	40.0%	39.9%	39.3%
Opex/total assets (%)	1.9%	1.8%	2.1%	2.0%	2.0%
Opex/total interest earning assets	2.1%	2.1%	2.3%	2.3%	2.3%
Profitability					
NIM (%)	4.2%	4.0%	4.2%	4.2%	4.3%
RoA (%)	1.9%	1.9%	2.0%	2.0%	2.0%
RoE (%)	16.6%	16.7%	17.5%	18.3%	18.6%
Asset quality					
Gross NPA (%)	1.3%	1.2%	1.2%	1.2%	1.2%
Net NPA (%)	0.4%	0.3%	0.3%	0.3%	0.3%
PCR (%)	69.8%	72.7%	74.0%	74.0%	74.0%
Slippage (%)	1.9%	2.0%	1.8%	1.7%	1.7%
Credit cost (%)	1.5%	1.5%	0.9%	0.9%	0.9%
Per share data / Valuation					
EPS (INR)	56.5	66.7	79.1	93.1	108.5
BVPS (INR)	369.9	432.9	474.1	543.9	625.2
ABVPS (INR)	361.6	425.0	464.8	532.9	612.4
P/E (x)	26.4	22.1	20.0	17.0	14.6
P/BV (x)	4.0	3.4	3.3	2.9	2.5
P/ABV (x)	4.1	3.5	3.4	3.0	2.6

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
17-Jan-22	1,586	1,960	BUY	Buy	More than 15%
17-Oct-22	1,445	1,836	BUY		
18-Jun-22	1,348	1,836	BUY	Accumulate	5% – 15%
18-Apr-22	1,395	1,997	BUY		
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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