

## Retail Equity Research

# HDFC Bank

### Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 61,046

**BUY**

12 Months Investment Period

 CMP Rs. 1,637 TARGET Rs. 1,890 RETURN 15% 

(Closing: 18-01-23)

**KEY CHANGES:**
**TARGET **
**RATING **
**EARNINGS **

### Robust growth in advances; outlook promising

Incorporated in August 1994, HDFC Bank provides corporate banking and custodial services and is also involved in treasury and capital markets. In addition, it offers project advisory services and capital market products, including GDR and currency bonds.

- In Q3FY23, higher interest income (9.9% QoQ) was offset by increase in interest expenses (+12.0% QoQ). Resultantly, NIM remained flat at 4.3%.
- Advances up 1.8% QoQ and 19.5% YoY while deposits rose 3.6% QoQ and 19.9% YoY. GNPA (1.23%) and NNPA (0.33%) ratios remained stable.
- Higher retail loans coupled with pick up in commercial and rural banking would continue to support loan growth in near term. Deposits to remain healthy with healthy CASA mix. We may see marginal improvement in NIM in the near term, and is expected to largely remain stable from thereon owing to strong growth in retail portfolio, which would partially offset higher cost of funds. We therefore reiterate our BUY rating, with a rolled forward target price of Rs. 1,890 based on 2.9x FY25E BVPS.

### Strong double-digit growth in net profit QoQ

In Q3FY23, interest income grew 9.9% QoQ to Rs. 45,002cr, driven by growth in interest on advances. Interest expenses rose 12.0% QoQ to Rs. 20,505cr. Consequently, NII rose 8.3% QoQ to Rs. 24,497cr. NIM was flat QoQ and YoY at 4.3%. Opex increased 10.6% QoQ due to accelerated branch expansion and increased employee spends, partly offset by other income, which grew 10.5% QoQ due to higher fee and commission income. Pre-provisioning profit came in at Rs. 5,567cr (up 7.8% QoQ). Provisions decreased 13.8% QoQ to Rs. 3,244cr and credit cost improved to 0.74% (vs. 0.87% in Q2FY23). Subsequently, net profit rose 14.1% QoQ to Rs. 12,698cr.

### Steady asset quality

Advances grew 1.8% QoQ and 19.5% YoY to Rs. 1,506,809cr, driven by strong growth momentum in retail loans and commercial and rural banking. Deposits grew 3.6% QoQ and 19.9% YoY to Rs. 1,733,204cr. However, CASA ratio shrank 100bps QoQ to 44.0%, owing to a shift in deposits from SA to FDs, with an increase in interest rates. Gross non-performing assets (GNPA) came in at Rs. 18,764cr (up 2.5% QoQ and 17.2% YoY). GNPA/NNPA ratios were stable at 1.23%/0.33%, respectively. The provision coverage ratio stood at 73.0%. The capital adequacy ratio was 19.4% and the Tier-I ratio was 17.2%, well above the regulatory requirements.

### Key quarter highlights

- HDFC Bank opened 684 new branches in Q3FY23, taking the total branch count to 7,183 (1,404 new branches YoY).
- The management expects healthy credit demand from NBFCs, telecom, PSU and infrastructure segments in the near term.

### Outlook & valuation

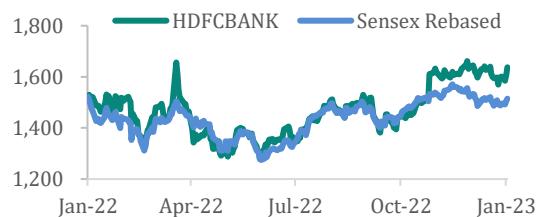
We expect robust growth in advances, driven by sustained demand from commercial, and rural banking as well as from retail segment while deposits to remain healthy on favourable CASA mix. Rising interest rates and higher retail loan growth would continue to support NIM despite rising cost of funds. Meanwhile, merger related overhangs should also ease as it nears completion by Q1/Q2FY24. Steady asset quality, diversified loan portfolio, and financial prudence will remain key positives for the stock. We reiterate our BUY rating on the stock, with a rolled forward target price of Rs. 1,890 based on 2.9x FY25E BVPS.

### Company Data

Market Cap (cr)	Rs. 919,191		
Outstanding Shares (cr)	558		
Free Float	79.0%		
Dividend Yield	1.2%		
52 week high	Rs. 1,722		
52 week low	Rs. 1,272		
6m average volume (lacs)	3.1		
Beta	1.1		
Face value	Rs. 1		
Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	25.8	25.7	25.6
FII's	35.6	32.3	29.4
MFs/Insti	24.7	27.3	30.5
Public	11.6	12.4	14.4
Others	2.3	2.3	0.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13.4%	21.5%	7.0%
Absolute Sensex	3.5%	12.0%	0.5%
Relative Return*	9.8%	9.5%	6.5%

\*Over or under performance to benchmark index



Consolidated (cr)	FY23E	FY24E	FY25E
Net Interest Income	84,421	100,149	118,905
Growth (%)	9.1	18.6	18.7
NIM (%)	4.3	4.4	4.4
Pre-Provision Profit	74,858	86,377	100,635
Net Profit	44,401	52,290	60,678
Growth (%)	16.4	17.8	16.0
Adj. EPS	79.1	93.1	108.1
Growth (%)	15.8	17.8	16.0
BVPS	490.8	565.3	651.8
P/E	20.7	17.6	15.1
P/B	3.3	2.9	2.5
ROE (%)	17.2	17.6	17.8
ROA (%)	2.0	2.1	2.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
Interest Income	45,002	34,588	30.1	40,930	9.9	123,206	100,362	22.8
Interest Expense	20,505	14,724	39.3	18,311	12.0	55,174	43,358	27.3
<b>Net Interest Income (NII)</b>	<b>24,497</b>	<b>19,864</b>	23.3	<b>22,619</b>	8.3	<b>68,032</b>	<b>57,004</b>	19.3
Non-Interest Income	9,121	8,777	3.9	8,252	10.5	24,302	23,373	4.0
<b>Total Income</b>	<b>54,123</b>	<b>43,365</b>	24.8	<b>49,182</b>	10.0	<b>147,507</b>	<b>123,735</b>	19.2
Operating Expenses	13,438	10,607	26.7	12,150	10.6	36,943	29,299	26.1
<b>Total Expenditure</b>	<b>33,943</b>	<b>25,331</b>	34.0	<b>30,461</b>	11.4	<b>92,117</b>	<b>72,657</b>	26.8
<b>Pre-Provision profit</b>	<b>20,180</b>	<b>18,034</b>	11.9	<b>18,722</b>	7.8	<b>55,391</b>	<b>51,078</b>	8.4
Provisions	3,244	3,816	(15.0)	3,765	(13.8)	10,675	13,895	(23.2)
<b>Profit Before Tax</b>	<b>16,936</b>	<b>14,218</b>	19.1	<b>14,956</b>	13.2	<b>44,716</b>	<b>37,184</b>	20.3
Tax	4,201	3,602	16.6	3,794	10.7	11,201	9,508	17.8
<b>Net Profit</b>	<b>12,735</b>	<b>10,616</b>	20.0	<b>11,163</b>	14.1	<b>33,515</b>	<b>27,676</b>	21.1
Adj. EPS - Diluted (Rs.)	22.7	19.0	19.5	19.9	13.8	22.7	19.0	19.5

### Change in Estimates

	Old estimates		New estimates			Change (%)	
Year / Rs. cr	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
<b>Net Int. Inc. (NII)</b>	<b>88,718</b>	<b>105,496</b>	<b>84,421</b>	<b>100,149</b>	<b>118,905</b>	<b>(4.8)</b>	<b>(5.1)</b>
Pre-Provision Profit	79,514	94,128	74,858	86,377	100,635	(5.9)	(8.2)
Net Profit	45,709	55,673	44,401	52,290	60,678	(2.9)	(6.1)
<b>Adj. EPS (Rs.)</b>	<b>81.8</b>	<b>99.7</b>	<b>79.1</b>	<b>93.1</b>	<b>108.1</b>	<b>(3.4)</b>	<b>(6.6)</b>

**PROFIT & LOSS**

Y.E Mar (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Interest Income	128,552	135,936	155,454	185,074	219,856
Interest Exp.	59,248	58,584	71,033	84,924	100,951
<b>Net Int. Income</b>	<b>69,305</b>	<b>77,352</b>	<b>84,421</b>	<b>100,149</b>	<b>118,905</b>
% Change	15.4	11.6	9.1	18.6	18.7
Non-Int. Income	27,333	31,759	36,761	42,569	49,285
<b>Net Income</b>	<b>96,638</b>	<b>109,111</b>	<b>121,182</b>	<b>142,718</b>	<b>168,189</b>
<b>Total Income</b>	<b>155,885</b>	<b>167,695</b>	<b>192,215</b>	<b>227,643</b>	<b>269,141</b>
Operating Exp.	35,001	40,312	46,324	56,342	67,554
<b>Total Exp.</b>	<b>94,249</b>	<b>98,897</b>	<b>117,357</b>	<b>141,266</b>	<b>168,506</b>
<b>Pre-Prov. Profit</b>	<b>61,636</b>	<b>68,799</b>	<b>74,858</b>	<b>86,377</b>	<b>100,635</b>
Provisions	18,840	17,925	15,522	16,499	19,547
PBT	42,796	50,873	59,336	69,878	81,088
Tax	10,939	12,722	14,935	17,588	20,410
Tax Rate (%)	25.6	25.0	25.2	25.2	25.2
<b>Net Profit</b>	<b>31,857</b>	<b>38,151</b>	<b>44,401</b>	<b>52,290</b>	<b>60,678</b>
% Change	16.7	19.8	16.4	17.8	16.0
No. of Shares (cr)	553	559	562	562	562
<b>Adj. EPS (Rs.)</b>	<b>57.6</b>	<b>68.3</b>	<b>79.1</b>	<b>93.1</b>	<b>108.1</b>
% Change	16.4	18.6	15.8	17.8	16.0
DPS (Rs.)	6.5	15.5	15.8	18.6	21.6

**BALANCE SHEET**

Y.E Mar (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & Balances	121,273	152,327	122,318	103,476	88,526
Investments	438,823	455,536	537,532	591,285	658,454
Advances	1,185,284	1,368,821	1,587,832	1,885,551	2,229,664
Fixed Assets	5,100	6,084	7,273	8,713	10,460
Other Assets	49,028	85,768	107,424	134,817	169,533
<b>Total Assets</b>	<b>1,799,507</b>	<b>2,068,535</b>	<b>2,362,380</b>	<b>2,723,843</b>	<b>3,156,637</b>
Capital	551	555	555	555	555
Reserves & Surplus	209,259	239,538	275,059	316,891	365,434
Deposits	1,333,721	1,559,217	1,793,100	2,097,927	2,465,064
Borrowings	177,697	184,817	201,451	207,494	214,764
Other Liabilities	78,279	84,407	92,215	100,976	110,821
<b>Total Liabilities</b>	<b>1,799,507</b>	<b>2,068,535</b>	<b>2,362,380</b>	<b>2,723,843</b>	<b>3,156,637</b>
<b>BVPS (Rs.)</b>	<b>379.4</b>	<b>429.8</b>	<b>490.8</b>	<b>565.3</b>	<b>651.8</b>
% Change	18.6	13.3	14.2	15.2	15.3

**RATIOS**

Y.E Mar (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	25.9	21.5	20.7	17.6	15.1
P/BV (x)	3.9	3.4	3.3	2.9	2.5
Div. Yield (%)	0.4	1.1	1.0	1.1	1.3
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	9.2	8.3	8.5	8.8	9.0
Cost of Deposits	4.2	3.6	3.8	4.0	4.1
Spread	5.0	4.7	4.7	4.9	5.0
NIM	4.5	4.5	4.3	4.4	4.4
ROE	16.5	17.0	17.2	17.6	17.8
ROA	1.9	2.0	2.0	2.1	2.1
<b>Capital Adequacy (%)</b>					
CAR	18.8	18.9	19.1	19.1	20.1
Tier I	17.6	17.9	18.1	18.3	19.3
Tier II	1.2	1.0	0.9	0.8	0.7
<b>Asset Quality (%)</b>					
GNPA	1.3	1.2	1.2	1.1	1.0
NNPA	0.4	0.3	0.3	0.3	0.2
<b>Operating Ratios (%)</b>					
Credit/ Deposit	88.9	87.8	88.6	89.9	90.5
Cost/ Income	36.2	36.9	38.2	39.5	40.2
CASA	46.2	48.2	43.9	43.2	42.4

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

### Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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