Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 31.45

Updated Mar 08, 2023

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

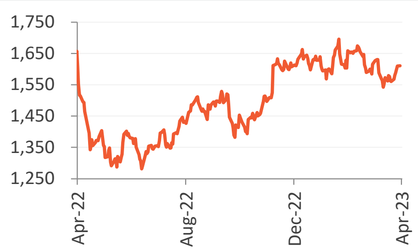
Company details

Market cap:	Rs. 9,22,304 cr
52-week high/low:	Rs. 1,722/1,272
NSE volume: (No of shares)	78.7 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	440.7 cr

Shareholding (%)

Promoters	20.9
FII	32.1
DII	28.4
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	0.9	17.0	-0.2
Relative to Sensex	2.5	3.5	11.9	1.3

Sharekhan Research, Bloomberg

HDFC Bank

Strong business momentum

Banks	Sharekhan code: HDFCBANK		
Reco/View: Buy ↔	CMP: Rs. 1,653	Price Target: Rs. 1,920 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- As per HDFC Bank's Q4FY2023 business update, total advances grew at a healthy pace of 16.9% y-o-y. Sequentially, advances growth picked by 6.2% in Q4FY2023 vs. 1.8% in Q3FY2023 to Rs. 16 trillion.
- According to the bank's internal classification, retail loans grew by 21% y-o-y/5% q-o-q. Commercial and rural banking continued to remain strong (up 30% y-o-y/9.5% q-o-q). Corporate and other wholesale loans also witnessed 12.5% y-o-y/4.5% q-o-q growth.
- The bank's deposit base rose by 20.8% y-o-y/8.7% q-o-q to Rs. 18.8 trillion. CASA deposits grew by 11.3% y-o-y/9.6% q-o-q. CASA mix marginally increased by 40 bps q-o-q to 44.4%. Retail/wholesale deposits grew by 23.5%/10.0% y-o-y and 7.5%/15.5% q-o-q.
- At the CMP, the bank trades at 2.7x and 2.3x its FY2024E and FY2025E Core BV, respectively. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,920.

HDFC Bank reported strong business performance in Q4FY2023 in terms of loan growth as well as deposit growth. The trend remained healthy on a sequential basis as well. Retail and corporate loan growth remained steady, while the commercial and rural banking segment continued to witness strong traction. The trend in deposit growth also remained strong. Total deposits grew by 20.8% y-o-y/8.7% q-o-q. CASA deposits grew by 11.3% y-o-y/9.6% q-o-q. Retail/wholesale deposits grew by 23.5%/10.0% y-o-y and 7.5%/15.5% q-o-q. Loan-to-Deposits ratio declined to 85.0% from 86.9% QoQ and 87.8% y-o-y. The bank purchased loans aggregating Rs.93.4 billion in Q4FY2023, through the direct assignment route, under a home loan arrangement with HDFC Ltd.

- **Loan growth trend likely to sustain:** Retail loan growth is expected to sustain as the demand environment is turning better across products, including two-wheeler loans where earlier demand was tepid. Personal loans and credit card spends continue to increase, led by higher discretionary spends. Moreover, the bank is likely to sustain its healthy growth in the CRB segment as it is adding new geographies and capturing supply chain of unserved SMEs. We also expect corporate loan growth to sustain, driven by capex-led growth. The bank is seeing strong demand trends in NBFCs, telecom PSUs, retail segment, and infrastructure sector. The bank is likely to see its market share gain accelerate.
- **Margin outlook:** There could be an uptick in margins over the next two quarters going forward, as the floating rate book (55% of total loans) gets repriced gradually on account of ongoing additional rate hikes, partially offsetting the increasing cost of funds along with share of retail & SME increases gradually in the overall mix.
- **Mobilisation of low-cost deposits at a faster pace:** Despite mid and small peer banks offering higher deposit rates, the bank is able to maintain its market share, which is gradually improving and is a key positive. HDFC Bank is the only large private bank to see deposit growth outpacing loan growth in the last three consecutive quarters. Total deposits grew by 20.8% y-o-y/8.7% q-o-q. CASA deposits grew by 11.3% y-o-y/9.6% q-o-q. Retail/wholesale deposits grew by 23.5%/10.0% y-o-y and 7.5%/15.5% q-o-q. We believe mobilisation of low-cost deposits is expected to remain at a healthy pace, led by branch expansion strategy.

Our Call

Valuation – We maintain our Buy rating with an unchanged PT of Rs. 1,920: We await hearing from the Reserve Bank of India (RBI) anytime soon on the regulatory dispensation. Based on the regulatory dispensation, it would be easier to build the next stage of the investment thesis because the liability-side transition would need some handholding. The stock is trading at a 30% discount to its long-term valuation multiple. The risk of de-rating on a standalone basis appears to be quite low, given that the business performance is holding up well. The stock is currently trading at 2.7x and 2.3x its FY2023E and FY2024E core ABV, respectively.

Key Risks

RBI may not allow regulatory dispensation.

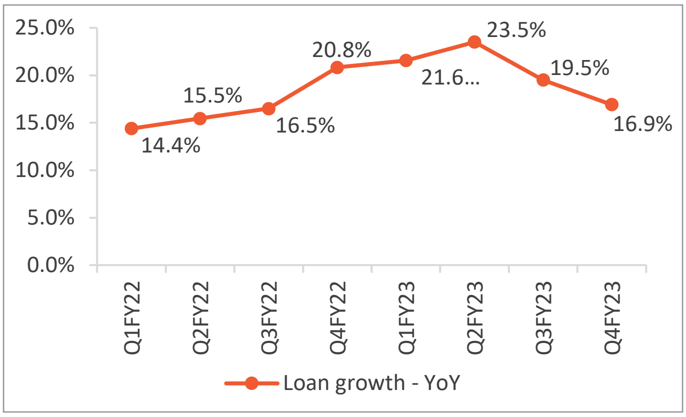
Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Net Interest Income	72,010	85,234	1,00,294	1,16,560
Net profit	36,962	44,734	51,850	60,041
EPS (Rs.)	66.3	79.9	91.8	105.4
P/E (x)	23.9	19.8	17.3	15.0
P/BV (x)	3.7	3.1	2.7	2.3
RoE (%)	16.7	17.0	16.7	16.4
RoA (%)	1.9	2.0	1.9	1.8

Source: Company; Sharekhan estimates

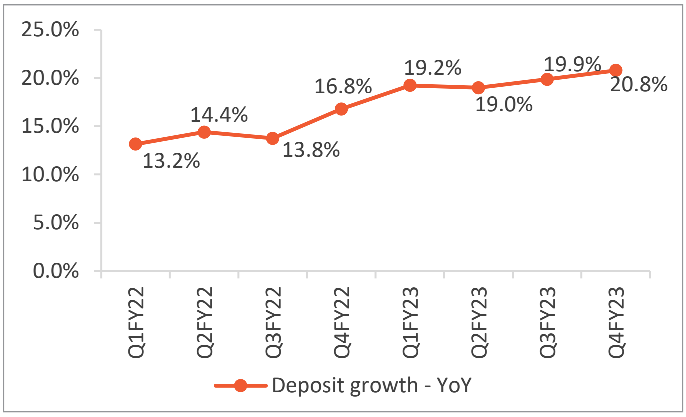
Financials in charts

Trend in Loan growth



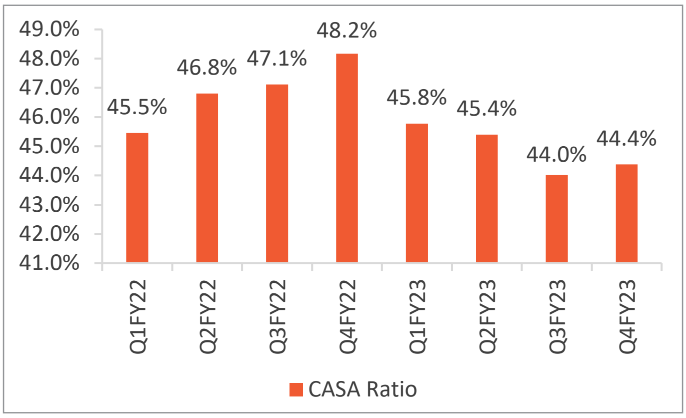
Source: Company, Sharekhan Research

Trend in Deposit growth



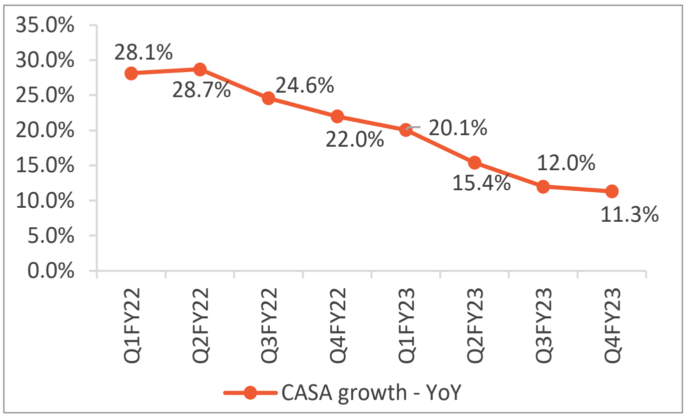
Source: Company, Sharekhan Research

Trend in CASA Ratio



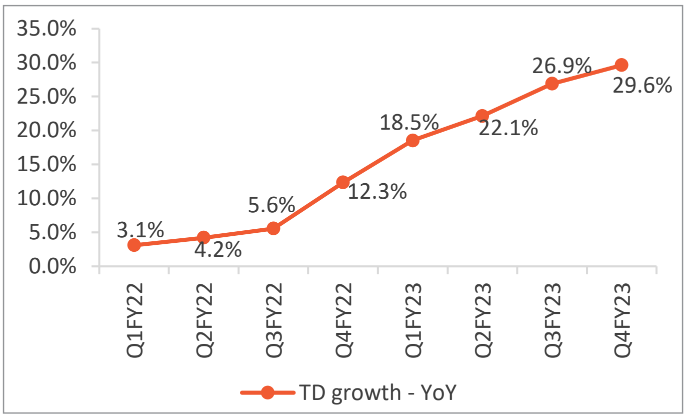
Source: Company, Sharekhan Research

Trend in CASA growth



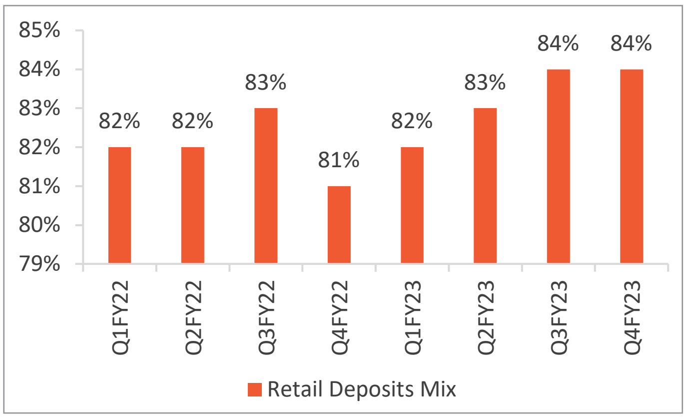
Source: Company, Sharekhan Research

Trend in TD growth



Source: Company, Sharekhan Research

Trend in Retail deposits mix



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~15.6% y-o-y in the fortnight ending March 10, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~10.3% but still trail advances growth. We should see some moderation in loan growth due to a higher base in FY2024, but loan growth is expected to remain healthy. Margins are likely to improve, but momentum is expected to moderate and margins are expected to peak by the end of FY2024. Asset quality is not a big issue on the corporate lending end due to muted growth in the past few years. From the retail side, there could be some pressure due to adverse macro situation, but nothing is significant. Asset quality is likely to remain stable in the near to medium term. In the past few years, lenders have been cautious about lending to the 'BB and below' category, thus the general risk, which they are carrying on the corporate portfolio, is low. On the retail loans front, due to COVID-19, banks have already seen one downcycle. Most of the exposure has been taken into credit costs. In terms of the MSME book, we need to be watchful. At present, we believe the banking sector is likely to see higher risk-off behaviour, with tactical market share gains for well-placed players. We believe banks with a robust capital base, strong deposit franchise, and asset quality (with high coverage and provision buffers) are well placed to capture growth opportunities.

■ Company outlook - Structural drivers in place with strong execution capabilities

We believe the long-term investment thesis of the bank remains strong. The bank is well-capitalized, has strong execution capabilities, can manage its growth levers along with its best-in-class asset quality across cycles and deliver superior return ratios irrespective of economic cycles.

■ Valuation - We maintain Buy stock with an unchanged TP of Rs. 1,920

We await hearing from the Reserve Bank of India (RBI) anytime soon on the regulatory dispensation. Based on the regulatory dispensation, it would be easier to build the next stage of the investment thesis because the liability-side transition would need some handholding. The stock is trading at a 30% discount to its long-term valuation multiple. The risk of de-rating on a standalone basis appears to be quite low, given that the business performance is holding up well. The stock is currently trading at 2.7x and 2.3x its FY2023E and FY2024E core ABV, respectively.

Peer Comparison

Banks	CMP (Rs/Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HDFC Bank	1,653	9,22,304	17.3	15.0	2.7	2.3	16.7	16.4	1.9	1.8
ICICI Bank	884	6,17,560	14.3	12.6	2.1	1.8	16.2	15.7	2.1	2.1
Axis Bank	861	2,64,813	10.4	9.5	1.7	1.4	17.4	16.1	1.7	1.7

Source: Company; Sharekhan Research

About company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the RBI as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional/branch banking on the retail side. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance.

Investment theme

HDFC Bank is among the top-performing banks in the country. The bank has a strong presence in the retail segment with strong asset quality. Not only the bank, but its strong marquee parentage enjoys arguably the strongest brand recall in the country, which is a significant competitive advantage in the Indian banking space. The bank's robust brand appeal, impressive corporate governance, and strong management team (consistency in performance and best-in-class asset quality) have enabled it to be a long-term wealth creator for investors, and the above factors still hold true. The bank continues to report consistent return ratios and earnings growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality, which is indicative of its strong business franchise strength and leadership qualities..

Key Risks

RBI may not allow regulatory dispensation.

Additional Data

Key management personnel

Mr. Sashidhar Jagdishan	Managing Director/CEO
Mr. Kaizad Bharucha	Executive Director
Mr. Srinivasan Vaidyanathan	Group Chief Financial Officer
Mr. Jimmy Tata	Chief Risk Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HOUSING DEVELOPMENT FINANCE CORP LTD.	15.50
2	HDFC INVESTMENT LTD.	5.38
3	SBI FUNDS MANAGEMENT LTD.	4.08
4	LIFE INSURANCE CORP OF INDIA	3.30
5	CAPITAL GROUP COS INC.	2.56
6	FMR LLC	1.86
7	MORGAN STANLEY	1.62
8	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	1.59
9	HDFC ASSET MANAGEMENT CO. LTD.	1.41
10	UTI ASSET MANAGEMENT	1.23

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

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