

Merger related clarification remains positive...

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations. It is the largest private sector bank with a loan book of ₹ 16 lakh crore. It has been a consistent performance with +4% NIM and +15% RoE in the past many years

Key updates of merger:

As per latest exchange filing, RBI has made a few clarifications with respect to the HDFC Bank and HDFC Ltd merger.

- On priority sector lending requirements (PSL), RBI said adjusted net bank credit (ANBC) may be calculated as one-third of outstanding loans of HDFC Ltd (as on the effective date) for the first year and remaining two third over next two years equally. **We believe gradual inclusion of parent loans for PSL calculation remains positive. First year for consideration will be one-year completion from effective date**
- HDFC Bank shall continue to comply with extant requirements of CRR, SLR, LCR from the effective date without any exceptions. **Compliance on regulatory requirement (CRR, SLR and LCR) is likely to have a limited impact considering the bank indicating readiness for the same**
- RBI has allowed HDFC Bank to increase its stake above 50% in HDFC Life (HDFC Ltd stake is 48.6% as of March 2023) and HDFC Ergo General Insurance (HDFC Ltd stake is 50.5% as of March 2023) prior to effective date. **This removes overhang on listed subsidiaries in near term**
- RBI has also allowed HDFC Bank to continue holding HDFC Ltd's stake (currently 100%) in HDFC Education & Development Services Pvt Ltd for two years from effective date. In HDFC Credila Financial Services, HDFC Bank will have to bring down its stake to 10% (from 100%) within two years from effective date and shall not onboard new customers
- One-time mapping of HDFC Ltd's borrowers must be done by HDFC Bank for benchmark and spreads. All retail, MSME and other floating rate loans sanctioned by HDFC Ltd would be linked to appropriate benchmark within six months from the effective date
- The asset classification of accounts in the books of HDFC Bank will be as per the norms applicable to banks from the effective date

Overall Impact: In our view, the clarification from RBI largely puts an end to the uncertainty related to merger contours and, thus, remains positive. Liabilities management decision of grandfathering is dependent on RBI approval, which is to be sought on the effective date.

Target Price and Valuation: HDFC Bank is expected to deliver higher than industry growth with RoA of ~2% in FY25E. We remain positive and retain our **BUY** rating on the stock. We value HDFC Bank at ~2.5x FY25E ABV (post merger) and ₹ 155 for subsidiaries and revise our target price to ₹ 2050/share from ₹ 1970 earlier.



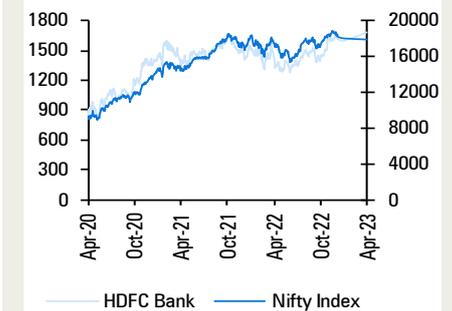
Particulars

Particulars	Amount
Market Capitalisation	₹ 933937 crore
52 week H/L	1715/1271
Networth	₹ 273063 crore
Face value	₹ 1

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	25.8	25.7	25.6	25.6	25.6
FII	35.6	32.3	32.1	32.1	32.2
DII	24.6	27.1	27.5	28.1	28.1
Others	14.1	14.9	14.7	14.2	14.1

Price Chart



Recent event & key risks

- Merger related clarification remains positive
- Key Risk:** 1) Moderation in pace of deposits accretion, 2) Anticipated elevated opex in near term

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Key Financial Summary

₹ Crore	FY21	FY22	FY23	3 year CAGR	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	64,880	72,010	86,842	16%	99,420	1,15,407	15%
PPP	57,362	64,077	70,405	13%	84,055	97,987	18%
PAT	31,117	36,961	44,109	19%	52,076	60,425	17%
ABV (₹)	361.3	425.0	494.3		560.5	659.4	
P/E	30.0	20.4	21.4		18.1	15.6	
P/ABV	4.7	3.2	3.4		3.0	2.6	
RoA	1.9	1.9	1.9		2.0	2.0	
RoE	16.6	16.7	17.0		17.3	17.1	

Source: Company, ICICI Direct Research

Financial summary (Standalone)

Exhibit 1: Profit and loss statement		₹ crore		
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	127753	161586	184595	216307
Interest Expended	55744	74743	85175	100900
NII	72010	86842	99420	115407
Growth (%)	11.0	20.6	14.5	16.1
Non Interest Income	29510	31215	36716	41971
Fees and advisory	19537	23444	26960	31005
Treasury Income	736	589	648	713
Other income	9237	7182	9107	10254
Total Income	101519	118057	136135	157379
Employee cost	12032	15512	18932	21839
Other operating Exp.	25410	32140	33148	37553
PPP	64077	70405	84055	97987
Provisions	15062	11920	14155	16880
PBT	49015	58485	69900	81107
Taxes	12054	14377	17825	20682
Net Profit	36961	44109	52076	60425
Growth (%)	18.8	19.3	18.1	16.0
EPS	66.7	79.1	93.3	108.3

Source: Company, ICICI Direct Research

Exhibit 2: Key Ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Valuation					
No. of Equity Shares	554.6	558.0	558.0	558.0	
EPS (₹)	66.7	79.1	93.3	108.3	
BV (₹)	433.0	502.2	577.5	685.8	
ABV (₹)	425.0	494.3	560.5	659.4	
P/E	20.4	21.4	18.1	15.6	
P/BV	3.1	3.4	2.9	2.5	
P/ABV	3.2	3.4	3.0	2.6	
Yields & Margins (%)					
Net Interest Margins	4.0	4.1	4.1	4.1	
Yield on avg earning assets	7.0	7.7	7.6	7.6	
Avg. cost on funds	3.5	4.0	3.8	3.8	
Avg. cost of deposits	3.4	3.8	3.9	3.9	
Yield on average advances	7.9	8.4	8.5	8.6	
Quality and Efficiency (%)					
Cost / Total net income	36.9	40.4	38.3	37.7	
Credit/Deposit ratio	87.8	85.0	84.3	84.4	
GNPA	1.2	1.1	1.1	1.1	
NNPA	0.3	0.3	0.5	0.7	
ROE	16.7	17.0	17.3	17.1	
ROA	1.9	1.9	2.0	2.0	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore		
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	555	558	558	558
Reserves and Surplus	239538	279641	321673	382098
Networth	240093	280199	322231	382656
Deposits	1559217	1883395	2207240	2565097
Borrowings	184817	206766	222085	247856
Other Liabilities & Provisions	84407	95722	99083	107995
Total	2068535	2466081	2850639	3303605
Applications of Funds				
Fixed Assets	6084	8017	7261	7844
Investments	455539	517001	582370	673872
Advances	1368821	1600586	1860961	2166098
Other Assets	85765	146713	206057	241635
Cash with RBI & call money	152327	193765	193989	214155
Total	2068535	2466081	2850639	3303605

Source: Company, ICICI Direct Research

Exhibit 4: Key ratio (%)					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total assets	18.4	19.2	15.6	15.9	
Advances	20.8	16.9	16.3	16.4	
Deposits	16.8	20.8	17.2	16.2	
Total Income	7.7	22.6	14.8	16.7	
Net interest income	11.0	20.6	14.5	16.1	
Operating expenses	14.4	27.3	9.3	14.0	
Operating profit	11.7	9.9	19.4	16.6	
Net profit	18.8	19.3	18.1	16.0	
Net worth	17.9	16.7	15.0	18.8	
EPS	18.1	18.6	18.1	16.0	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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