

May 5, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	3,200		3,000	
NII (Rs.)	2,20,547	2,46,680	2,19,513	2,48,790
% Chng.	0.5	(0.8)		
PPoP (Rs.)	2,46,463	2,77,370	2,45,685	2,77,893
% Chng.	0.3	(0.2)		
EPS (Rs.)	98.3	111.8	99.3	113.5
% Chng.	(0.9)	(1.5)		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Int.Inc. (Rs m)	1,71,194	1,92,477	2,20,547	2,46,680
Growth (%)	14.4	12.4	14.6	11.8
Op. Profit (Rs m)	1,91,783	2,18,090	2,46,463	2,77,370
PAT (Rs m)	1,37,422	1,62,394	1,80,386	2,05,142
EPS (Rs.)	75.8	88.5	98.3	111.8
Gr. (%)	13.7	16.8	11.1	13.7
DPS (Rs.)	22.9	22.1	24.6	28.0
Yield (%)	0.8	0.8	0.9	1.0
Margin (%)	3.1	3.0	3.1	3.1
RoAE (%)	12.0	12.8	12.6	12.8
RoAA (%)	2.3	2.4	2.4	2.4
PE (x)	37.8	32.3	29.1	25.6
P/BV (x)	4.3	3.9	3.5	3.1
P/ABV (x)	4.5	4.1	3.6	3.2

Key Data

HDFC.BO | HDFC IN

52-W High / Low	Rs.2,867 / Rs.2,026
Sensex / Nifty	61,749 / 18,256
Market Cap	Rs.5,251bn/ \$ 64,190m
Shares Outstanding	1,835m
3M Avg. Daily Value	Rs.8798.76m

Shareholding Pattern (%)

Promoter's	-
Foreign	22.54
Domestic Institution	66.20
Public & Others	16.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	15.1	29.7
Relative	4.2	13.6	16.9

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HDFC (HDFC IN)

Rating: BUY | CMP: Rs2,862 | TP: Rs3,200

AuM growth expected to improve

Quick Pointers:

- Earnings beat driven by better NIM, assignment income and asset quality.
- LCR build-up required since as per bank norms LCR is at 75%.

HDFC saw a good quarter with core PPoP beating PLe by 12% led by better NII/NIM and higher assignment income. Asset quality was stronger as GNPA reduced QoQ from 1.5% to 1.2% due to higher recoveries. Net AuM growth was softer at 9.2% YoY due to 11% drop in non-individual which has been run down to comply with merger. We see superior AuM growth at 12% in FY24/25E as 1) bulk of run-down has been effected and 2) HDFC expects home loan momentum to sustain. Company would need to build-up LCR before merger since LCR as per bank norms is ~75% (reported 128%). While we await clarity on the LCR need to assess the NIM impact, HDFCB does hold excess SLR. With core RoE at ~14%, valuation is at 1.8x. Keeping multiple at 2.3x we shift to Mar'25 core ABV and raise TP from Rs3,000 to Rs3,200. Retain BUY.

- **Beat on core PAT by 12% led by better NII and assignment income:** NII was ahead by 4.8% at Rs53.2bn (+15.7% YoY) mainly due to better margins. Net AuM grew by 9.2% (PLe 10.3%); individual loans grew 15.7% YoY while builder portfolio de-grew by 11% YoY. NIM too was a beat at 3.24% (PLe 3.18%) led by lower funding cost. Other income was higher at Rs6.9bn due to higher assignment income; fees was in-line at Rs944mn. Opex was a miss at Rs6.7bn (PLe Rs6.0bn) due to higher other opex at Rs3.33bn. Core PPoP at Rs45.4bn was 12% ahead of PLe. Asset quality (stage-3) improved QoQ from 1.8% to 1.5% (PLe 1.8%). Provisions were higher at Rs4.4bn (PLe Rs3.9bn). Core PAT was Rs40.2bn (PLe Rs35.0bn) while overall PAT was Rs44.3bn.
- **AuM growth largely led by individual housing:** Loan growth was mainly led by individual (share 83%) while non-individual de-grew by 11.0% YoY. Housing contributed 93% to individual disbursements for FY23 which grew by 17% YoY. Growth in home loans was seen in both, mid-income as well as high-end segments and HDFC expects this momentum to sustain in FY24. Contribution in value terms from customers having annual family income of Rs1.8mn or more has increased in FY23 to 53% from 45% a year ago. Non-individual exposures of Rs180bn have been run down to comply with merger requirements. Company suggested that bulk of required run-down has already been effected implying that overall loan growth may improve from hereon.
- **LCR build-up a key; borrowings' maturity changing to longer term:** SLR stood at Rs640bn while LCR was 128% which as per banking norms would be ~75%. With the merger expected to fructify in Jul'23, HDFC will build-up its LCR while HDFCB also holds excess SLR. Hence company is focused on longer tenure funding. Rs100bn-150bn liabilities mature each month suggesting a maturity of ~4 years; 60% of liabilities are linked to an external benchmark. HDFC is reducing corporate deposits, as they are short term in nature and individual deposits contributed 16% to incremental funding during FY23. Retail deposits accounted for 73% of total deposits.

NII stood at Rs 53bn and registered a growth of 15.7% YoY/9.9% QoQ

Operating expenses grew by 30.5% YoY due to higher staffing, IT, distribution network, legal and merger related expenses

PAT at Rs44.3bn (+19.6% YoY) was higher led by NII and better off book income.

Loan book at Rs7236bn grew 3.2% QoQ /10.7% YoY, mainly led by individual loan book

GNPA stood at 1.2% vs 1.9% in the previous quarter

Exhibit 1: Pat beat led by better NII and assignment income

P&L (Rs mn)	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)
Interest on advances	1,54,330	1,11,397	38.5	1,44,578	6.7
Other interest income	733	2,319	(68.4)	764	(4.1)
Total interest income	1,55,062	1,13,716	36.4	1,45,342	6.7
Interest expense	1,01,848	67,708	50.4	96,942	5.1
Net Interest Income	53,215	46,009	15.7	48,401	9.9
Other Income	11,859	9,368	26.6	7,126	66.4
Total income	65,074	55,377	17.5	55,526	17.2
Operating expenses	6,710	5,142	30.5	5,708	17.5
-Staff expenses	2,403	2,266	6.1	2,348	2.3
-Other expenses	4,307	2,877	49.7	3,361	28.2
Operating profit	58,364	50,235	16.2	49,818	17.2
Total provisions	4,380	4,010	9.2	3,700	18.4
Profit before tax	53,984	46,225	16.8	46,118	17.1
Tax	9,729	9,222	5.5	9,210	5.6
Profit after tax	44,255	37,003	19.6	36,908	19.9
Balance Sheet (Rs mn)					
Loan composition	72,36,022	65,39,020	10.7	70,14,850	3.2
-Individual loans (%)	81.0	78.8	2.2	82.0	(1.0)
-Non-Individual loans (%)	19.0	21.2	(2.2)	18.0	1.0
Borrowings composition	56,82,220	49,96,810	13.7	54,36,640	4.5
-Term loans (%)	28.2	25.0	3.2	27.7	0.4
-Bonds/ Deb./ CPs (%)	45.1	43.0	2.1	42.6	2.5
-Deposits (%)	26.8	32.0	(5.2)	29.7	(2.9)
NIMs	3.6	3.5	13	3.4	19
Asset quality (%)					
Gross NPL	1.2	2.2	(106)	1.9	(73)
Others / Ratios (%)					
Cost-income ratio	11.2	10.0	1.2	11.2	0.0
Int. expense/Int. income	65.7	59.5	6.1	66.7	(1.0)
Tier-I	23.8	22.2	2	23.2	(22)

Source: Company, PL

Key Concall Takeaways:

Business Update:

- **In Q4FY23, margin came at 3.6%**, which is higher than the margin guidance of the management. Margin improved as corporation was able to pass on rate hikes on the lending business.
- **Total AUM mix** – Individual HL: 81%, Construction Finance: 7%, LRD: 9%, Corporate Loans: 4%. **The incremental loan growth was driven by individual loans (+17% YoY)**. 98% loans were sourced through distribution channels. On maturity, certain non-individual exposures have been run down to comply with merger requirements (O/s – Rs180bn). 10-11% of the loan gets prepaid every year.
- **Individual disbursements grew by 16% YoY respective**. Housing disbursements constituted 93% of individual loan disbursements in the current year. Growth in home loans was seen in both, mid-income segment as well as high-end properties.
- **PSL compliant loan book stood at Rs1.1trn**. Healthy pipeline in construction finance segment and lease rental discounting
- **On the borrowings front**, NHB: 28%, NCD & CP: 45%, Deposits: 27%. Company has been focusing on longer tenure funding, with deposit: 3-3.5 years, NCD: 100 months, ECB: 42-43 months, Bank loans: 15 months, however the same would be replaced with longer tenure loans on maturity. ~RS100bn-150bn liabilities mature monthly. Around 60% of the liabilities would be linked to external benchmark rate.
- **Retail deposits accounted for 73% of the total deposits**. Company has rundown corporate deposits, as they are short term in nature. Individual deposits contributed 16% of the incremental funding during the year.
- **LCR of HDFC Ltd stood at 128% which converted in bank terms would be 75%**, hence management has been focusing on raising long term funding or having notice period for premature withdrawal of 31 days. **SLR stood at Rs630-640bn**
- **Interest rate swap book would be allowed to be merged with the bank.**
- The warrants, which come up for, conversion post the conclusion of merger in July'23 (expected), would receive shares of HDFC Bank in the ratio of 1:1.68.

Provisions:

- As at March 31, 2023, the Corporation carried total provision of Rs121bn. Provisions carried as a percentage of **Exposure at Default (EAD) is equivalent to 1.96%**.
- **Credit cost during the quarter reduced by 25bps (annualized)**. As the Asset quality issues ease, credit cost is expected to come down to pre-covid levels, which should improve the ROEs.

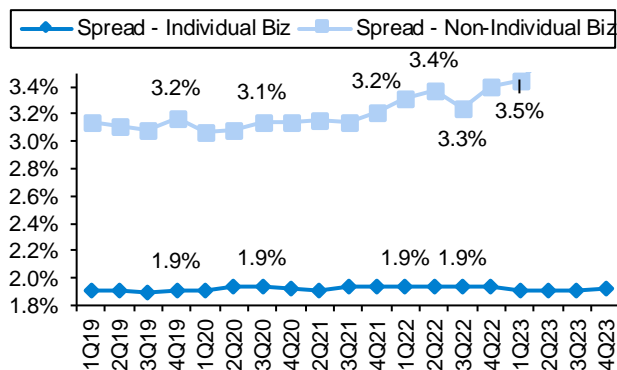
Asset quality & Collection efficiency:

- Overall GNPA's declined to 1.18% (vs 1.91% in Q4FY22). GNPA in individual segment stood at 0.75% (0.99% in Q4FY22) and non-individual segment stood at 3.9% (4.76% in Q4FY22).
- Stage 1 is 95%, Stage 2 is 3.6%, and Stage 3 is 1.4%.** There has been 170bps YoY reduction in aggregate of Stage 2 and Stage 3 assets.
- Average collection efficiency in individual loan segment on cumulative basis continued to be strong during Q4 over 99%.
- Disbursements under ECLGS for FY23 was Rs18.8bn or 0.3% of the loan book. OTR book stood at Rs38.9bn or 0.6% of the loan book. 98% of the OTR book are in the individual loan category

Others:

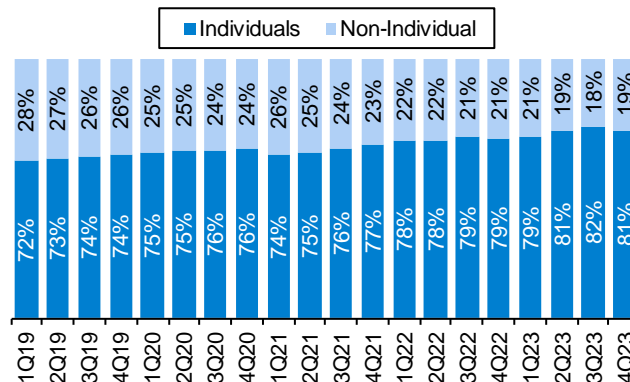
- The average level of liquidity during this quarter has been about Rs510bn.
- On the merger**, NCLT meeting is being scheduled on February 3, 2023 post which there would be certain regulatory requirements that need to be taken care of.

Exhibit 2: Spreads have been stable QoQ at 3.5%/1.9%



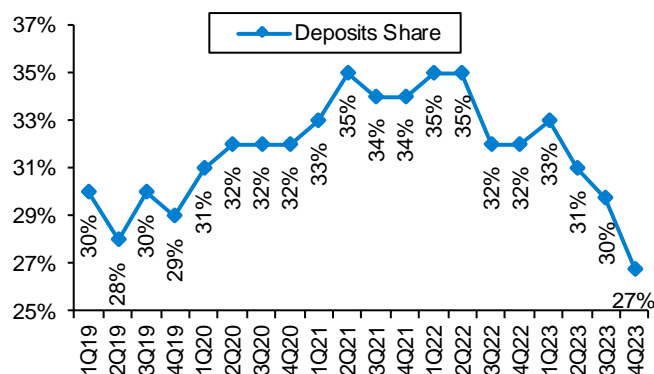
Source: Company, PL

Exhibit 3: Loan mix skewed towards Individuals at 81%



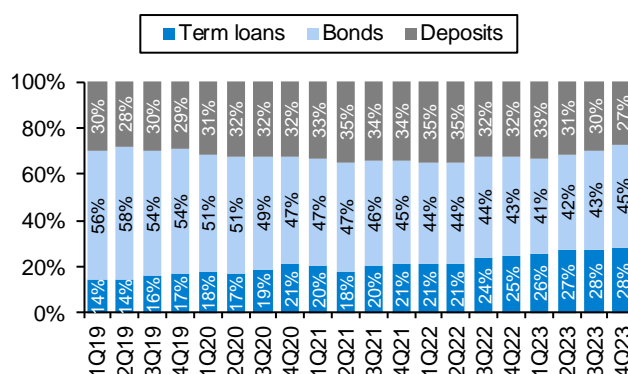
Source: Company, PL

Exhibit 4: Deposit share reduces to 27%

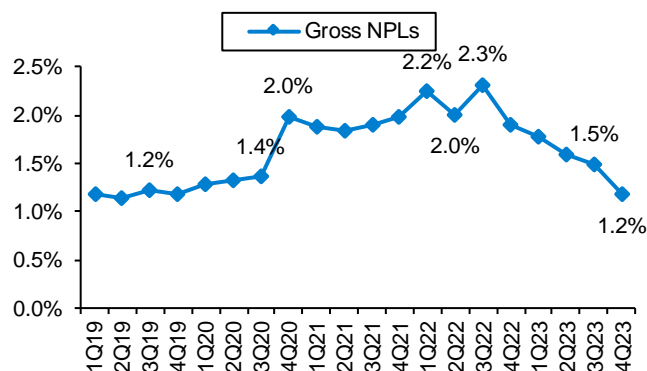


Source: Company, PL

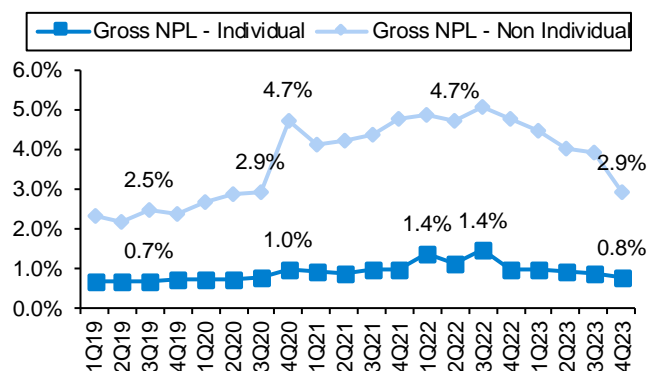
Exhibit 5: Borrowing mix skewed towards NCD at 45%



Source: Company, PL

Exhibit 6: Asset quality improves with GNPA at 1.5%


Source: Company, PL

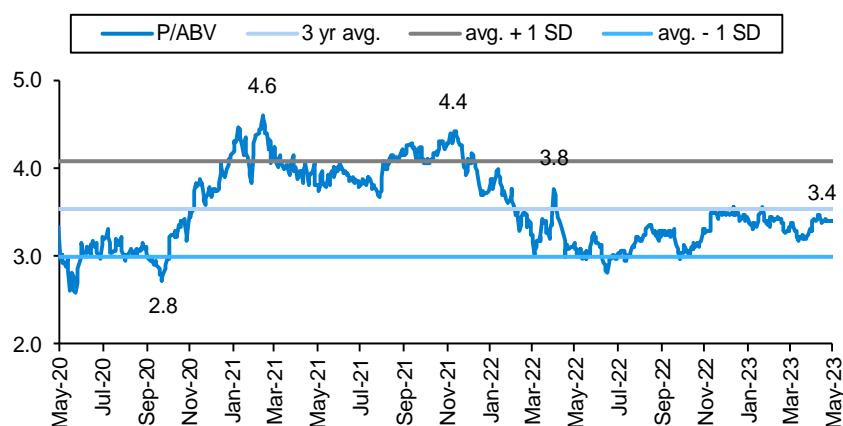
Exhibit 7: Across segments improvement


Source: Company, PL

Exhibit 8: SOTP Metrics: Core valued at 2.3x PABV Mar'25E, subsidiaries ~50% of SOTP

HDFC SOTP valuation	Stake (%)	Value per share (Rs)	Basis
HDFC Parent (A)		1,657	2.3x P/ABV Mar'25E
Subsidiaries / Associates			
HDFC Bank	21.0	1,206	Value of stake in HDFC Bank as per our fair value
Life insurance	51.0	2326	M-Cap
AMC	52.6	128	M-Cap
Ergo	51.0	43	41x of FY22 earnings
Bandhan Bank	5.0	10	M-cap
HDFC CREDILA	10.0	1	1x of FY-22 earnings
Total subs/associates (B) @10% discount		1,543	
Fair value (A+B)		3,200	
Current market price		2,862	
Upside (%)		12	
Contribution of subs to total (%)		50.8	

Source: PL

Exhibit 9: One year forward P/ABV trades at 3.4x


Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Inc. / Opt. Inc.	4,38,586	5,52,424	6,90,905	7,95,075
Interest Expenses	2,67,392	3,59,947	4,70,358	5,48,395
Net interest income	1,71,194	1,92,477	2,20,547	2,46,680
Growth(%)	14.4	12.4	14.6	11.8
Non-interest income	41,316	49,812	53,555	62,127
Growth(%)	(10.0)	20.6	7.5	16.0
Net operating income	2,12,510	2,42,289	2,74,102	3,08,807
Expenditures				
Employees	10,608	10,253	12,119	13,870
Other Expenses	8,396	11,188	12,450	14,092
Depreciation	1,723	2,759	3,070	3,475
Operating Expenses	20,727	24,199	27,639	31,437
PPP	1,91,783	2,18,090	2,46,463	2,77,370
Growth(%)	8.0	13.7	13.0	12.5
Provisions	19,320	17,950	15,199	14,367
Profit Before Tax	1,72,463	2,00,140	2,31,265	2,63,002
Tax	35,041	37,747	50,878	57,861
Effective Tax rate(%)	20.3	18.9	22.0	22.0
PAT	1,37,422	1,62,394	1,80,386	2,05,142
Growth(%)	14.3	18.2	11.1	13.7

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Source of funds				
Equity	3,626	3,669	3,669	3,669
Reserves and Surplus	11,98,884	13,36,178	15,08,756	16,85,595
Networth	12,02,510	13,39,847	15,12,425	16,89,264
Growth (%)	10.5	11.4	12.9	11.7
Loan funds	49,96,811	56,82,219	62,55,803	70,06,465
Growth (%)	13.2	13.7	10.1	12.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	2,02,190	2,37,551	2,56,206	2,81,453
Other Liabilities	7,113	8,127	9,136	10,232
Total Liabilities	64,08,625	72,67,745	80,33,570	89,87,415
Application of funds				
Net fixed assets	14,439	15,861	16,562	17,308
Advances	55,48,625	60,83,627	67,01,404	75,03,566
Growth (%)	14.3	9.6	10.2	12.0
Investments	6,85,922	9,77,181	11,11,876	12,44,970
Current Assets	65,451	84,481	91,730	1,03,488
Net current assets	(1,36,739)	(1,53,071)	(1,64,476)	(1,77,965)
Other Assets	94,188	1,06,595	1,11,998	1,18,082
Total Assets	64,08,625	72,67,745	80,33,570	89,87,415
Growth (%)	12.9	13.4	10.5	11.9
Business Mix				
AUM	65,39,020	72,39,880	81,39,255	91,49,598
Growth (%)	14.7	10.7	12.4	12.4
On Balance Sheet	65,39,020	72,39,880	81,39,255	91,49,598
% of AUM	100.00	100.00	100.00	100.00
Off Balance Sheet	-	-	-	-
% of AUM	-	-	-	-

Profitability & Capital (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	3.1	3.0	3.1	3.1
ROAA	2.3	2.4	2.4	2.4
ROAE	12.0	12.8	12.6	12.8

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Int. Inc. / Operating Inc.	1,20,030	1,31,989	1,45,342	1,55,062
Income from securitization	-	-	-	-
Interest Expenses	75,561	85,597	96,942	1,01,848
Net Interest Income	44,469	46,392	48,401	53,215
Growth (%)	7.8	12.9	13.0	15.7
Non-Interest Income	12,457	18,371	7,126	11,859
Net Operating Income	56,926	64,763	55,526	65,074
Growth (%)	10.7	14.6	12.9	17.5
Operating expenditure	5,888	5,892	5,708	6,710
PPP	51,038	58,871	49,818	58,364
Growth (%)	-	-	-	-
Provision	5,140	4,730	3,700	4,380
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	45,898	54,141	46,118	53,984
Tax	9,210	9,598	9,210	9,729
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	20.1	17.7	20.0	18.0
PAT	36,688	44,542	36,908	44,255
Growth	22	18	13	20
AUM	67,13,640	69,02,840	70,14,850	72,36,022
YoY growth (%)	16.9	15.6	13.3	10.7
Borrowing	51,74,520	52,90,336	54,36,640	56,82,220
YoY growth (%)	18.0	14.3	11.5	13.7

Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	2,862	2,862	2,862	2,862
EPS (Rs)	75.8	88.5	98.3	111.8
Book value (Rs)	663.3	730.3	824.4	920.8
Adj. BV(Rs)	630.8	706.3	799.0	894.4
P/E(x)	37.8	32.3	29.1	25.6
P/BV(x)	4.3	3.9	3.5	3.1
P/ABV(x)	4.5	4.1	3.6	3.2
DPS (Rs)	22.9	22.1	24.6	28.0
Dividend Payout Ratio(%)	30.2	25.0	25.0	25.0
Dividend Yield(%)	0.8	0.8	0.9	1.0

Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs(Rs m)	1,28,750	96,083	1,01,768	1,05,252
Net NPA(Rs m)	58,840	44,084	46,682	48,423
Gross NPAs to Gross Adv.(%)	2.3	1.5	1.5	1.4
Net NPAs to net Adv.(%)	0.9	0.6	0.6	0.5
NPA coverage(%)	54.3	54.1	54.1	54.0

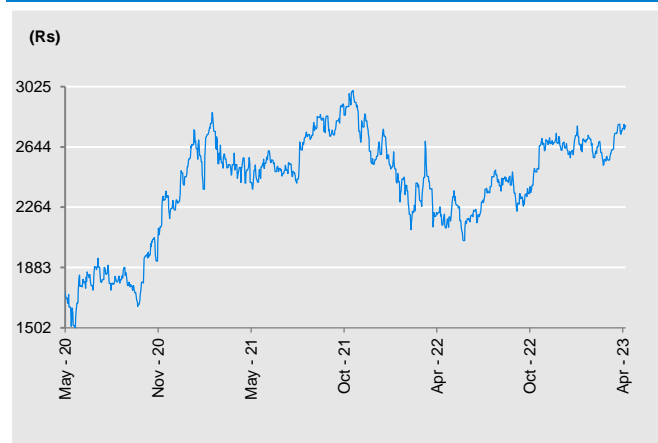
Du-Pont as a % of AUM

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	2.6	2.5	2.6	2.5
NII INCI. Securitization	2.6	2.5	2.6	2.5
Total income	2.8	3.2	3.2	3.2
Operating Expenses	0.3	0.3	0.3	0.3
PPOP	2.5	2.9	2.9	2.9
Total Provisions	0.3	0.2	0.2	0.1
RoAA	1.8	2.1	2.1	2.1
Avg. Assets/Avg. net worth	6.8	6.0	6.0	6.1
RoAE	12.0	12.8	12.6	12.8

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	3,000	2,722
2	02-Feb-23	BUY	3,000	2,613
3	05-Jan-23	BUY	3,000	2,622
4	04-Nov-22	BUY	3,000	2,489
5	05-Oct-22	BUY	2,900	2,349
6	29-Jul-22	BUY	2,900	2,378
7	08-Jul-22	BUY	2,908	2,246

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,675
2	Axis Bank	BUY	1,140	881
3	Bank of Baroda	BUY	220	166
4	Can Fin Homes	BUY	770	617
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,000	2,722
9	HDFC Asset Management Company	BUY	2,100	1,766
10	HDFC Bank	BUY	1,925	1,672
11	ICICI Bank	BUY	1,130	886
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,530	1,102
14	Kotak Mahindra Bank	BUY	2,220	1,938
15	LIC Housing Finance	Accumulate	410	333
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	730	526
18	UTI Asset Management Company	BUY	770	658

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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