

HDFC BANK LIMITED | Banking

...consolidated numbers to be reported from next quarter

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Price Analysis:

HDFC Bank reported mixed operating performance in 1QFY24. Slippages increased 18% sequentially and GNPA at 1.17% is below the historical trend of 1.4%. In 1QFY24, the provisioning expenses were higher sequentially at ₹28.6bn (v/s ₹26.8bn 4QFY23). At the same time NII growth was tepid sequentially (21.1% YoY, 1.1% QoQ) against the loan growth (15.8% YoY, 0.9% QoQ). The bank reported stable NIMs at 4.3%. A marginally higher opex (C/I ratio: 42.8% v/s 42%) and lackluster NII growth led to sequential decline in PPOP. Thus, the bank has reported sequential decrease in PAT by 0.8% along with ROA/ROE of 2.04%/16.3%. We expect marginal reduction in ROA/ROE for FY24E owing to higher C/I ratio and margin pressure. We believe, superior underwriting practices, higher liquidity, adequate coverage and strong capital position makes HDFC Bank well placed and thus, we re-iterate BUY with price target of ₹2,074.

PPOP declined sequentially driven by higher opex and tepid NII growth: The bank's NII stood at ₹236bn; grew by 21% YoY and mere 1.1% sequentially owing to higher COF of 4.0% v/s 3.7% sequentially. The bank's reported NIMs stood flat at 4.3%. The bank's loan book mix carries 45% fixed rate loans and 55% floating rate loans. Around 34% of total book is linked to Repo and ~15% linked to T-bills. Moreover floating rate MCLR loans are 6% of overall book. The reported NIMs were stable in this quarter. Real change in margin would come from change in portfolio mix shift from wholesale to retail. However, higher margin with retail shift would also be accompanied by higher credit cost. Therefore, ROA is likely to stay stable. Furthermore, in 1QFY24, the fee income grew by 17.3% YoY. Other income were up by 44.5% YoY and 5.7% QoQ. PPOP grew by 22.2% YoY but lagged sequentially and witnessed growth of 0.8% owing to muted sequential NII growth and higher opex (C/I ratio: 42.8% v/s 42%). The bank's Provisioning Expense stood sequentially higher at ₹28.6bn v/s ₹26.8bn in 4QFY23. Core credit cost at 70bps v/s 64bps in the previous quarter. The bank has reported a PAT of ₹119.5bn; up 30% YoY and down 0.8% sequentially. ROA and ROE stood down to 2.04% (v/s 2.12% in 4QFY23) and 16.3% (v/s 17.2% in 4QFY23) respectively.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	648,796	720,096	868,422	998,171	1,174,730
Operating Profit	573,618	640,773	704,050	796,424	915,806
Reported Profits	311,165	369,614	441,087	498,861	574,369
Net Worth	2,037,208	2,400,929	2,801,990	3,300,851	3,875,220
Loan & Advances	11,328,366	13,688,209	16,005,859	18,886,914	22,475,427
Int. Bearing Liabilities	14,705,475	17,440,346	20,901,602	24,456,157	28,806,901

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.1	3.9	4.1	4.0	4.0
C/I	36.3	36.9	40.4	40.0	39.9
Gross NPA	1.3	1.2	1.1	1.1	1.1
PCR	69.8	72.7	75.8	76.0	76.6
Adj. RoA	1.9	1.9	1.9	1.9	1.8
Adj. RoE	16.6	16.7	17.0	16.3	16.0

Rating	BUY
Current Market Price (₹)	1,679
12 M Price Target (₹)	2,074
Potential upside (%)	24

Stock Data

FV (₹) :	1
Market Cap Full (₹ bn) :	12,651
Market Cap Free Float (₹ bn) :	12,528
52-Week High / Low (₹) :	1,758 / 1,337
1 Yr Avg. Dly Traded Volume (in lakh)	105
BSE Code / NSE Symbol :	500180 / HDFCBANK
Bloomberg :	HDFCB IN

Shareholding Pattern

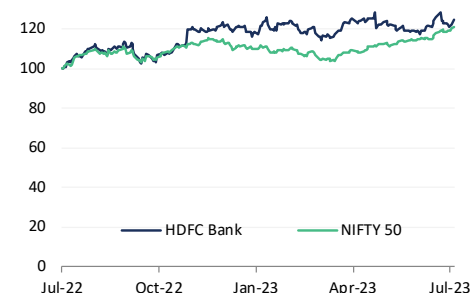
(%)	Jun-23	Mar-23	Dec-22	Sep-22
Promoter	25.52	25.59	25.60	25.64
FPIs	33.36	32.22	32.08	32.12
MFs	17.60	18.47	18.37	18.00
Insurance	7.63	8.01	8.11	7.87
Others	15.89	15.71	15.84	16.37

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
HDFC Bank	4.8%	0.7%	4.4%	24.6%
Nifty 50	4.7%	11.3%	9.2%	21.1%

* To date / current date : July 17, 2023

HDFC Bank vs Nifty 50

Credit quality overwhelming: The GNPA/NNPA/PCR stood at 1.17%/0.3%/75% v/s 1.12%/0.27%/76% in the previous quarter. Out of 1.17% GNPA ratio, 14bps is standard but included as GNPA since one of the other facility of borrower is NPA. Additionally, the slippages up sequentially and stood at ~₹58bn (1.5% annualized) for the quarter v/s ~₹49bn in the previous quarter. The historical slippages ratio range is 1.5% - 2%. The upgrades and recoveries at ₹26.5bn were stable compared to previous quarter. The absolute GNPA (₹190.6bn) increased by 5.8% sequentially. The restructuring under RBI resolution framework for COVID-19 was approximately ₹42.6bn (26bps) of net advances against ₹50bn (31bps) sequentially. In 1QFY24, the bank has reported higher provisioning expenses of ₹28.6bn; up by 6.5% sequentially. PCR (calculated) stable at 75% and it is in line with the historical trend. Along with cumulative provision of ~₹143bn, the bank also held floating provisions of ₹14.5bn and contingent provision of ₹97bn. Total Provision (Specific + Floating + Contingent + General) stood at 171% of GNPLs. The additional (COVID + contingent) provision stood 1.13% of the book.

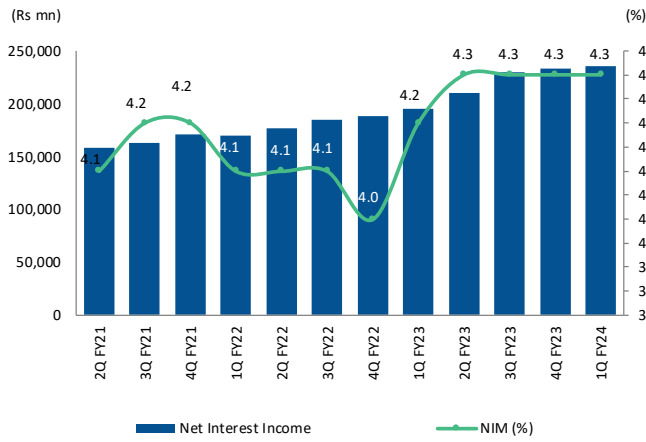
Growth Maintained: The bank's net advances stood at ₹16tn; 15.8% YoY and 0.9% QoQ. Loan Mix carries: Retail (including business banking): 56%, Corporate (including oversea): 44%. Bank's wholesale book is at an average internal rating of 4.3 (equivalent to AA). Wholesale also comes at lower RWA while retail comes at 100% RWA. The bank's deposit stood at ~₹19.1tn; grew healthy by ~19.2% YoY and 1.6% QoQ led by strong traction in term deposits. CASA deposit also grew strongly by 10.7% YoY and ratio stood at 42.5% v/s 44.0% in the previous quarter. Long term CASA range at ~40%. A robust deposit traction is a result of new liability relationship, where the bank added ~10.5mn liability customers as of FY23 against 8.5mn in FY22 and 7mn in FY21. The current quarter CDR at 85% where incremental CDR at 62%. The bank's CRAR stood at 18.93% with CET-1 of 16.2%. Tier 2 CRAR weaken to 2.03% v/s 2.16% in 4QFY23. The bank is adequately capitalized and sees no further dilution. The bank's RWA to total asset stood at 67% and LCR at 120%.

Outlook and Valuation:

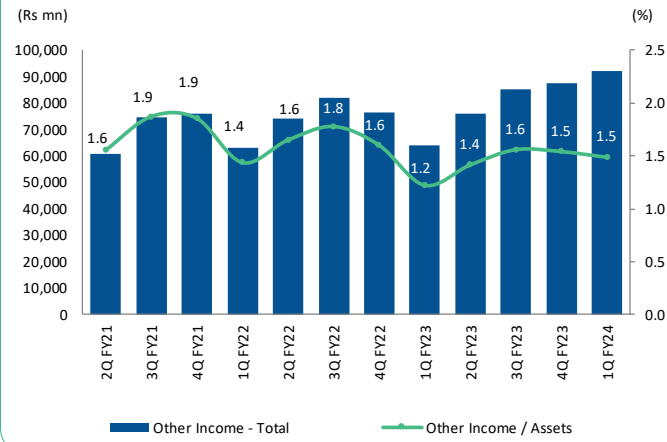
HDFC Bank is expected to outperform the sector led by 1) healthy balance sheet growth, 2) much higher provision than regulatory requirement in the balance sheet, 3) best in class underwriting and risk management practices. Given these strengths, we expect HDFC Bank to remain one of the best among all the lending business. Thus, we continue to maintain BUY on the bank with target price of ₹2074.

Quarterly story in charts

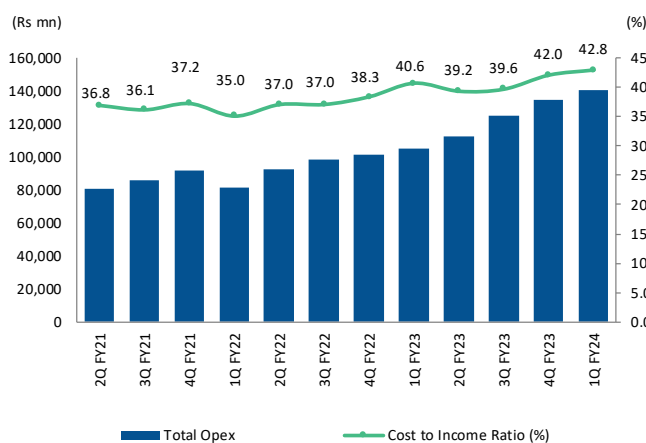
NII Trend



Other income trend



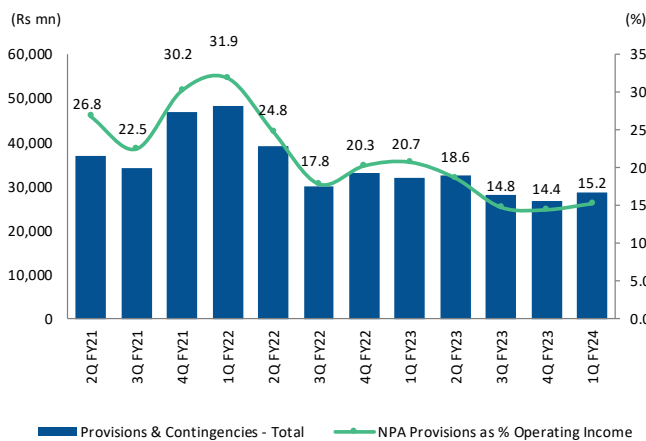
Total Opex Trend



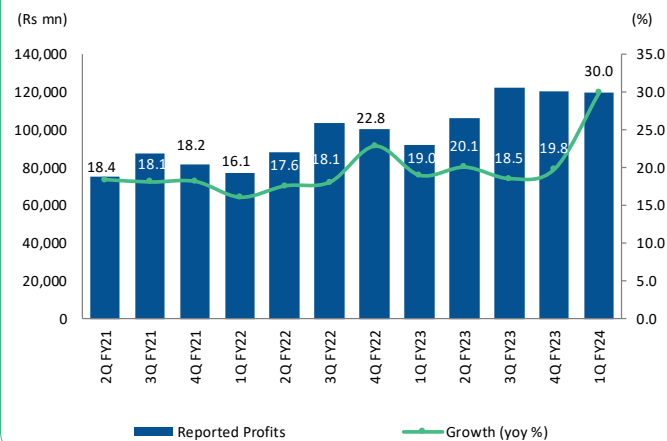
Pre Provision Profit trend



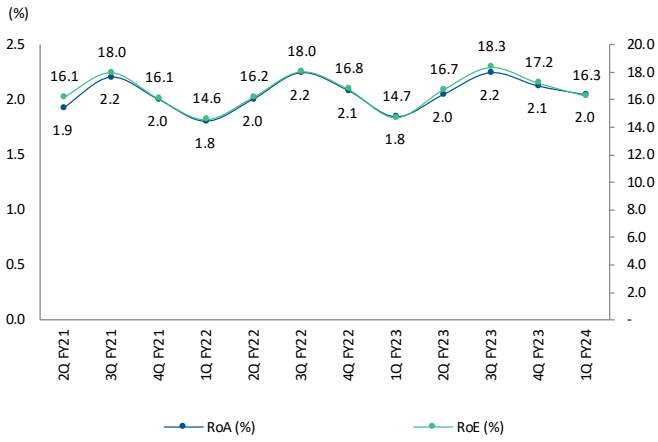
Provision Expenses trend



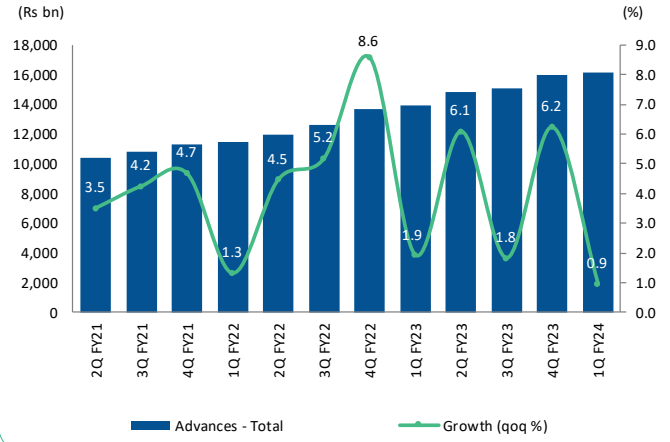
Reported Profit trend



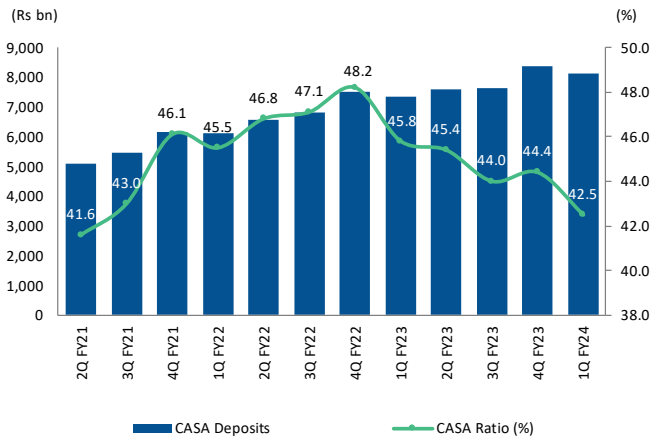
Return Ratio trend



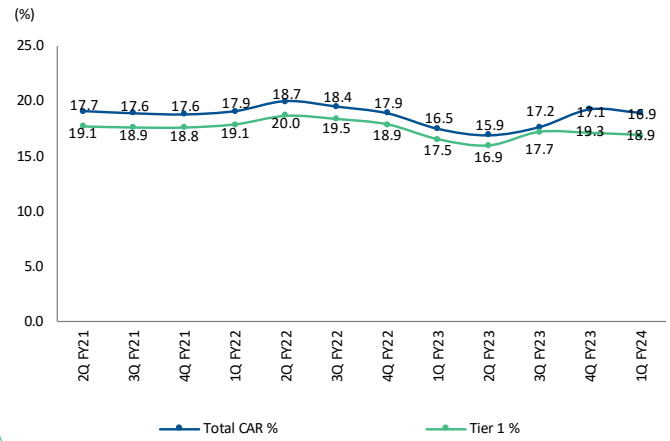
Loan Book trend



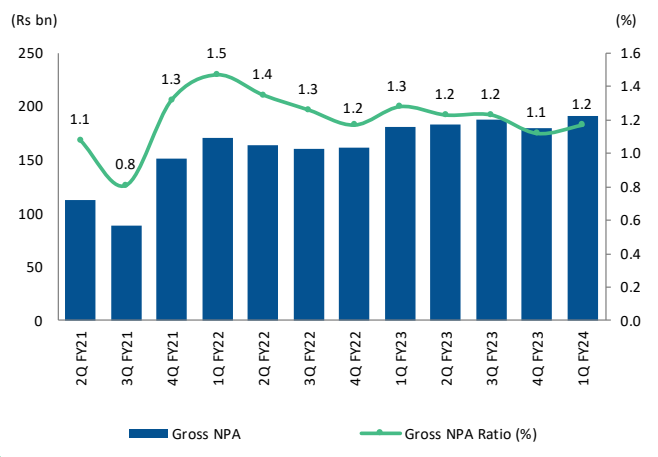
CASA Deposit trend



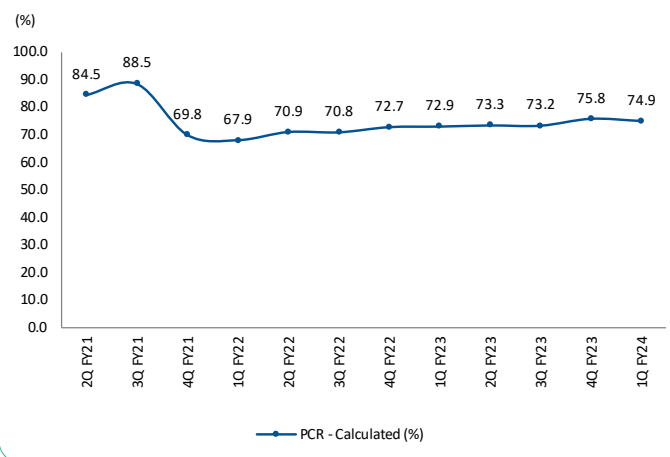
CRAR and Tier 1 trend



Gross NPA trend



PCR trend



Recent Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	1Q FY24	1Q FY23	% yoy / bps	4Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	485,868	351,720	38.1	451,194	7.7	1,615,856	1,277,531	26.5
Interest Expenses	249,877	156,906	59.3	217,675	14.8	747,433	557,435	34.1
Net Interest Income	235,991	194,814	21.1	233,518	1.1	868,422	720,096	20.6
NII to Net Operative Income	71.9	75.3	(342)	72.8	(90)	73.6	70.9	263
NIM (%)	4.30	4.2	10	4.3	-	4.1	3.9	13
Other Income - Total	92,299	63,882	44.5	87,312	5.7	312,148	295,099	5.8
Other Income to Net Operative Income	28.1	24.7	342	27.2	90	26.4	29.1	(263)
Net Operating Revenue	328,289	258,697	26.9	320,830	2.3	1,180,571	1,015,195	16.3
Employee Expenses	47,821	35,002	36.6	43,621	9.6	155,124	120,317	28.9
Other Opex	92,748	70,016	32.5	91,001	1.9	321,397	254,105	26.5
Total Opex	140,569	105,018	33.9	134,621	4.4	476,521	374,422	27.3
Cost to Income Ratio (%)	42.8	40.6	222	42.0	86	40.4	36.9	348
Pre Provision Profits	187,720	153,678	22.2	186,209	0.8	704,050	640,773	9.9
Provisions & Contingencies - Total	28,600	31,877	(10.3)	26,854	6.5	119,197	150,618	(20.9)
NPA Provisions as % Operating Income	15.2	20.7	(551)	14.4	81	16.9	23.5	(658)
Profit Before Tax	159,120	121,801	30.6	159,355	(0.1)	584,853	490,155	19.3
Tax	39,602	29,841	32.7	38,881	1.9	143,766	120,541	19.3
Effective Tax Rate (%)	24.9	24.5	39	24.4	49	24.6	24.6	(1)
Reported Profits	119,518	91,960	30.0	120,475	(0.8)	441,087	369,614	19.3
RoA (%)	2.0	1.8	20	2.1	(8)	1.9	1.9	1
RoE (%)	16.3	14.7	157	17.2	(93)	17.0	16.7	30

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Net Worth	2,400,929	2,502,849	2,541,114	2,675,424	2,801,990	2,938,146	4.9	17.4
RoE (%)	16.8	14.7	16.7	18.3	17.2	16.3	(93)	157
Tier 1 %	17.9	16.5	15.9	17.2	17.1	16.9	(20)	40
Total CAR %	18.9	17.5	16.9	17.7	19.3	18.9	(33)	143
RWA - Total	13,535,110	13,984,420	14,778,550	15,362,720	15,866,350	16,708,990	5.3	19.5
Advances - Total	13,688,209	13,950,677	14,798,732	15,068,093	16,005,859	16,156,720	0.9	15.8
Investments	4,555,357	4,961,567	5,191,159	5,272,767	5,170,014	5,657,776	9.4	14.0
Total Assets	20,685,351	21,097,715	22,278,934	22,953,053	24,660,815	25,016,930	1.4	18.6
RoA (%)	2.08	1.84	2.04	2.24	2.12	2.04	(8)	20
Deposits	15,592,174	16,047,600	16,734,080	17,332,040	18,833,947	19,130,958	1.6	19.2
CASA Deposits	7,510,500	7,346,470	7,596,960	7,629,510	8,359,890	8,129,540	(2.8)	10.7
CASA Ratio (%)	48.2	45.8	45.4	44.0	44.4	42.5	(190)	(330)
Interest Bearing Liabilities - Total	17,440,347	17,783,659	18,802,863	19,439,661	20,901,602	21,225,186	1.5	19.4

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Deposits	15,592,174	16,047,600	16,734,080	17,332,040	18,833,947	19,130,958	1.6	19.2
CASA Deposits	7,510,500	7,346,470	7,596,960	7,629,510	8,359,890	8,129,540	(2.8)	10.7
Saving Deposit	5,117,390	5,140,630	5,297,450	5,352,060	5,624,930	5,606,040	(0.3)	9.1
Current Deposit	2,393,110	2,205,840	2,299,510	2,277,450	2,734,960	2,523,500	(7.7)	14.4
Term Deposits	8,081,674	8,701,130	9,137,120	9,702,530	10,474,057	11,001,418	5.0	26.4
Borrowings	1,848,172	1,736,059	2,068,783	2,107,621	2,067,656	2,094,228	1.3	20.6
Interest Bearing Liabilities	17,440,347	17,783,659	18,802,863	19,439,661	20,901,602	21,225,186	1.5	19.4

Source: Company, LKP Research

Exhibit 4: Asset Quality Analysis

(₹ mn)	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	1Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	40,000	72,000	57,000	66,000	49,000	58,000	18.4	(19.4)
Slippages Ratio (%)	0.35	0.53	0.42	0.48	0.36	0.36	0	(16)
Gross NPA	161,410	180,337	183,010	187,639	180,190	190,641	5.8	5.7
Gross NPAs Ratio (%)	1.17	1.28	1.23	1.23	1.12	1.17	5	(11)
PCR - Calculated (%)	72.7	72.9	73.3	73.2	75.8	74.9	(81)	205
Net NPA	44,077	48,877	48,827	50,243	43,684	47,769	9.3	(2.3)
Net NPAs Ratio (%)	0.32	0.35	0.33	0.33	0.27	0.30	3	(5)
Standard Restructured	157,000	106,025	78,500	64,000	50,000	42,650	(14.7)	(59.8)
Std. Rest. Adv. as % of Advances	1.1	0.8	0.53	0.42	0.31	0.26	(5)	(50)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income	1,208,582	1,277,531	1,615,856	1,887,431	2,218,977
Interest Expenses	559,787	557,435	747,433	889,260	1,044,247
Net Interest Income	648,796	720,096	868,422	998,171	1,174,730
<i>NIM (%)</i>	4.10	3.92	4.05	3.98	3.99
Other Income - Total	252,049	295,099	312,148	330,183	349,259
Net Operating Revenue	900,845	1,015,195	1,180,571	1,328,353	1,523,989
Employee Exp.	103,648	120,317	155,124	178,392	205,151
Other Opex	223,578	254,105	321,397	353,537	403,032
Total Opex	327,226	374,422	476,521	531,929	608,183
<i>C/I Ratio</i>	36.32	36.88	40.36	40.04	39.91
Pre Provision Profits	573,618	640,773	704,050	796,424	915,806
<i>PPP Growth (yoy %)</i>	17.7	11.7	9.9	13.1	15.0
Provisions & Contingencies - Total	157,029	150,618	119,197	134,967	154,229
<i>Credit Cost (As % of Op. AUM)</i>	1.24	1.00	0.66	0.66	0.66
Profit Before Tax	416,590	490,155	584,853	661,458	761,577
Tax	105,425	120,541	143,766	162,597	187,207
<i>Effective Tax Rate</i>	25.3	24.6	24.6	24.6	24.6
Reported Profits	311,165	369,614	441,087	498,861	574,369
<i>PAT Growth (yoy %)</i>	18.5	18.8	19.3	13.1	15.1

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5,513	5,546	5,580	5,580	5,580
Reserves (ex Revel. Reserve)	2,031,696	2,395,384	2,796,411	3,295,271	3,869,641
Net Worth - Ex Revaluation	2,037,208	2,400,929	2,801,990	3,300,851	3,875,220
Deposits	13,350,602	15,592,174	18,833,947	22,036,873	25,957,227
Borrowings	1,354,873	1,848,172	2,067,656	2,419,284	2,849,674
Interest Bearing Liabilities	14,705,475	17,440,346	20,901,602	24,456,157	28,806,901
Other Lia. & Prov.	726,022	844,075	957,223	1,105,890	1,152,203
Total Liabilities	17,468,705	20,685,351	24,660,815	28,862,898	33,834,324
Assets					
Cash & Cash Equivalent	1,194,704	1,523,269	1,937,651	2,265,107	2,665,910
Investments	4,437,283	4,555,357	5,170,014	5,867,608	6,659,328
Loan & Advances	11,328,366	13,688,209	16,005,859	18,886,914	22,475,427
<i>Growth (yoy %)</i>	<i>14.0</i>	<i>20.8</i>	<i>16.9</i>	<i>18.0</i>	<i>19.0</i>
Fixed Assets	49,093	60,837	80,166	82,720	97,053
Other Assets	459,259	857,678	1,467,125	1,760,550	1,936,605
Total Assets	17,468,705	20,685,351	24,660,815	28,862,898	33,834,324

Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	1	1	1	1	1
Adjusted Share O/S - For Calculation	5,513	5,546	5,580	5,580	5,580
Earnings Per Share	56.4	66.7	79.1	89.4	102.9
EPS (% YoY)	17.9	18.1	18.6	13.1	15.1
P/E (x)	29.7	25.2	21.2	18.8	16.3
Book Value	369.5	432.9	502.2	591.6	694.5
BVPS (% YoY)	18.5	17.2	16.0	17.8	17.4
P/BV (x)	4.5	3.9	3.3	2.8	2.4
Adj. BV	365.4	429.0	498.3	587.7	690.6
Adj. BV (% YoY)	18.4	17.4	16.2	17.9	17.5
P/ABV (x)	4.6	3.9	3.4	2.9	2.4

Exhibit 8: Detail RoA Tree Analysis (%)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	8.9	7.9	8.6	8.6	8.6
Yield on Funds	7.6	7.0	7.5	7.5	7.5
Cost of Funds (CoF)	4.1	3.5	3.9	3.9	3.9
Interest Spread	3.6	3.5	3.6	3.6	3.6
NIM's	4.1	3.9	4.1	4.0	4.0
Interest Income / Assets	7.4	6.7	7.1	7.1	7.1
Interest Exp. / Assets	3.4	2.9	3.3	3.3	3.3
NII / Assets	4.0	3.8	3.8	3.7	3.7
Fee Income / Assets	1.0	1.0	0.9	0.8	0.7
Other Non Core Income / Assets	0.2	0.1	0.1	0.1	0.1
Other Income / Assets	1.5	1.5	1.4	1.2	1.1
Net Operating Income / Assets	5.5	5.3	5.2	5.0	4.9
Operating Ratios					
NII to Net Operative Income	72.0	70.9	73.6	75.1	77.1
Other Income to Net Operative Income	28.0	29.1	26.4	24.9	22.9
Empl. Cost/Oper. Exps.	31.7	32.1	32.6	33.5	33.7
Other Op. Exps./Oper. Exps.	68.3	67.9	67.4	66.5	66.3
C/I Ratio	36.3	36.9	40.4	40.0	39.9
Provisions as % PPP	17.4	14.8	10.1	10.2	10.1
Credit Cost (As % of Op. AUM)	1.2	1.0	0.7	0.7	0.7
Effective Tax Rate	25.3	24.6	24.6	24.6	24.6
Employee Exp. / Assets	0.6	0.6	0.7	0.7	0.7
Other Opex/ Assets	1.4	1.3	1.4	1.3	1.3
Total Opex / Assets	2.0	2.0	2.1	2.0	1.9
Operating Profits / Assets	3.5	3.4	3.1	3.0	2.9
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.5	3.4	3.1	3.0	2.9
Provisions / Assets	1.0	0.8	0.5	0.5	0.5
Profit Before Tax / Assets	2.5	2.6	2.6	2.5	2.4
Tax Expenses / Assets	0.6	0.6	0.6	0.6	0.6
RoA	1.9	1.9	1.9	1.9	1.8
Leverage (x)	8.6	8.6	8.8	8.7	8.7
RoE	16.6	16.7	17.0	16.3	16.0
Adj. RoA	1.9	1.9	1.9	1.9	1.8
Adj. RoE	16.6	16.7	17.0	16.3	16.0

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	84.9	87.8	85.0	85.7	86.6
Incremental C/D Ratio	74.2	105.3	71.5	90.0	91.5
Investment Deposit Ratio	33.2	29.2	27.5	26.6	25.7
Dom. SLR Investment / Deposits	26.4	23.7	22.2	21.6	20.8
CASA Ratio	46.3	48.5	44.7	44.7	44.7

Exhibit 10: Asset Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<i>Slippage Ratio</i>	1.6	2.4	1.8	1.6	1.4
Gross NPA (Cl Bal)	150,860	161,410	180,190	208,037	246,411
<i>Gross NPAs Ratio (%)</i>	1.3	1.2	1.1	1.1	1.1
<i>PCR (%)</i>	69.8	72.7	75.8	76.0	76.6
Net NPA (Cl. Bal.)	45,548	44,077	43,684	49,931	57,704
<i>Net NPAs Ratio (%)</i>	0.4	0.3	0.3	0.3	0.3
Total Impaired Loans	150,860	161,410	180,190	208,037	246,411
<i>Impaired Loan as % of Loan / AUM</i>	1.2	1.1	1.1	1.0	1.0
Total Risk Reserves	119,825	131,846	136,506	158,106	188,707
<i>Total Risk As % of Loan Book</i>	1.0	0.9	0.8	0.8	0.8

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances	11,328,366	13,688,209	16,005,859	18,886,914	22,475,427
Growth (yoy %)		20.8	16.9	18.0	19.0
Interest Bearing Liabilities	14,705,475	17,440,346	20,901,602	24,456,157	28,806,901
Growth (yoy %)		18.6	19.8	17.0	17.8
Yield on Funds	7.6	7.0	7.5	7.5	7.5
Cost of Funds (CoF)	4.1	3.5	3.9	3.9	3.9
Interest Spread	3.6	3.5	3.6	3.6	3.6
NIM's	4.1	3.9	4.1	4.0	4.0
Other Income Growth	8.4	17.1	5.8	5.8	5.8
C/I Ratio	36.3	36.9	40.4	40.0	39.9
Effective Tax Rate	25.3	24.6	24.6	24.6	24.6
Return Ratios					
Adj. RoA	1.9	1.9	1.9	1.9	1.8
Adj. RoE	16.6	16.7	17.0	16.3	16.0
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	1.2	1.0	0.7	0.7	0.7
Gross NPAs Ratio (%)	1.3	1.2	1.1	1.1	1.1
Net NPAs Ratio (%)	0.4	0.3	0.3	0.3	0.3

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