

# Retail Equity Research

## HDFC Bank Limited

Banking

BSE CODE: 500180

NSE CODE: HDFCBANK

Bloomberg CODE: HDFCB:IN

SENSEX: 66,385

**BUY**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 1,679 TARGET Rs. 1,964 RETURN 17%  
(Closing: 24-07-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### HDFC twins merge; growth remains strong

Incorporated in August 1994, HDFC Bank provides corporate/retail 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.

- Net interest income (NII) rose 20.5% YoY on account of strong growth in advances. Net interest margin (NIM) remained flat at 4.3% QoQ.
- Pre-provision operating profit (PPOP) increased 20.6% YoY, while PAT rose 29.1% to Rs. 12,370cr owing to lower provisioning.
- HDFC Bank has replaced HDFC Limited ('HDFC') in MSCI Global Standard and FTSE All-World indices from 13 July 2023.
- Growth in advances and deposits remain strong, with renewed focus on retail segment. The bank remains well capitalised, with a diversified loan book and stable asset quality which should drive long-term growth. We retain our BUY rating on the stock, with a revised target price of Rs. 1,964 based on 2.9x FY25E BVPS.

### Robust all-round performance, resilient balance sheet

In Q1FY24, interest income grew 37.3% YoY (+7.6% QoQ) to Rs. 51,168cr, driven by robust 37.5% YoY growth in interest on advances. Interest expenses rose 58.7%. As a result, NII grew 20.5% to Rs. 25,213cr, while NIM remained flat sequentially at 4.3%. PPOP was Rs. 19,889cr (+20.6% YoY). Provisions for the quarter declined 10.2% to Rs. 3,292cr. As a result, PAT grew 29.1% YoY to Rs. 12,370cr. On a proforma basis, advances of the merged entity grew 13.1% to Rs. 22,451bn (+0.7% QoQ), while deposits aggregated to Rs. 20,635bn (+16.2% YoY, +1.2% QoQ). CASA ratio for the merged entity was 39%. Gross non-performing assets (GNPA) came in at Rs. 19,064cr (up 5.8% QoQ). GNPA and NNPA ratios were 1.17% and 0.30% (vs. 1.12% and 0.27% in Q4FY23), respectively. Provision coverage ratio was 75.0%, while capital adequacy ratio was 18.9%.

### Key concall highlights

- 39 new branches were opened in Q1FY24, taking the total branch count to 7,860.
- The bank issued 1.5mn credit cards during the quarter, taking the total count to 18.4mn.

### Merger creates \$154bn behemoth

HDFC Bank's merger with HDFC took effect on 1 July 2023, making it the world's 7<sup>th</sup> largest banking institution with a market value of nearly Rs. 12.7 lakh cr (over \$154bn). In comparison, ICICI Bank's market value stood at \$82bn, while that of State Bank of India, at \$64bn. On a proforma basis, core loan growth (excl. HDFC's non-individual and IBPC/BRDS loans) for the merged entity was 18.7% YoY at Rs. 22,107cr.

### Valuation

Gross advances and deposits will continue to show robust growth in the foreseeable future, with a focus on higher retail participation. The merger unlocks significant synergies for the merged entity, including, but not limited to, lower cost of funds, access to HDFC's sturdy housing loan portfolio and possibilities of cross-selling other financial products to its expanded customer base. Diversified loan book mix, steady asset quality, and financial prudence remain key positives for the stock. We expect earnings to grow at healthy 19% CAGR over FY23-25E. We reiterate our BUY rating on the stock with a revised target price of Rs. 1,964 based on 2.9x FY25E BVPS.

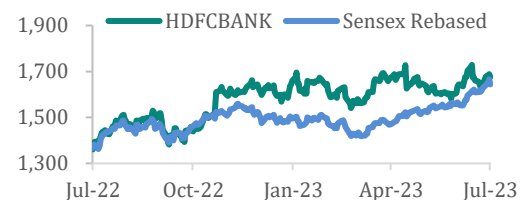
### Company Data

Market Cap (cr)	Rs. 1,263,071
Outstanding Shares (cr)	753.8
Free Float	99.0%
Dividend Yield	4.9%
52 week high	Rs. 1,758
52 week low	Rs. 1,365
6m average volume (lacs)	2.3
Beta	1.2
Face value	Rs. 1

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	25.6	25.6	25.5
FII's	32.1	32.2	33.4
MFs/Insti	28.4	28.3	27.0
Public	13.9	13.6	13.9
Others	0.1	0.2	0.3
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	0.1%	0.9%	23.1%
Absolute Sensex	11.8%	10.0%	19.8%
Relative Return*	-11.7%	-9.1%	3.4%

### \*Over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Net Interest Income	92,974	104,983	124,252
Growth (%)	20.2	12.9	18.4
NIM (%)	4.6	4.5	4.6
Pre-Provision Profit	75,352	84,799	101,373
Net Profit	45,997	53,282	63,928
Growth (%)	20.9	15.8	20.0
Adj.EPS	82.3	95.3	114.3
Growth (%)	20.4	15.8	20.0
BVPS	516.0	589.4	677.4
P/E	19.4	17.6	14.7
P/B	3.1	2.8	2.5
RoE (%)	17.1	17.2	18.0
RoA (%)	2.0	2.0	2.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Interest Income	51,168	37,274	37.3	47,548	7.6
Interest Expense	25,955	16,358	58.7	22,606	14.8
<b>Net Interest Income (NII)</b>	<b>25,213</b>	<b>20,916</b>	20.5	<b>24,942</b>	1.1
Non-Interest Income	9,853	6,929	42.2	9,611	2.5
<b>Total Net Income</b>	<b>35,067</b>	<b>27,844</b>	25.9	<b>34,553</b>	1.5
<b>Total Income</b>	<b>61,021</b>	<b>44,202</b>	38.0	<b>57,159</b>	6.8
Operating Expenses	15,178	11,355	33.7	14,591	4.0
<b>Total Expenditure</b>	<b>41,132</b>	<b>27,713</b>	48.4	<b>37,197</b>	10.6
<b>Pre-Provision Profit</b>	<b>19,889</b>	<b>16,489</b>	20.6	<b>19,962</b>	(0.4)
Provisions	3,292	3,666	(10.2)	3,179	3.6
<b>Profit Before Tax</b>	<b>16,597</b>	<b>12,823</b>	29.4	<b>16,783</b>	(1.1)
Tax	4,193	3,207	30.8	4,149	1.1
Minority Interests	33	38	(12.5)	40	(16.9)
<b>Net Profit</b>	<b>12,370</b>	<b>9,579</b>	29.1	<b>12,594</b>	(1.8)
Adj.	-	-	-	-	-
<b>Adj. PAT</b>	<b>12,370</b>	<b>9,579</b>	29.1	<b>12,594</b>	(1.8)
<b>Adj. EPS (Rs.)</b>	<b>22.0</b>	<b>17.2</b>	28.1	<b>22.5</b>	(1.9)

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	100,149	118,905	104,983	124,252	4.8	4.5
Pre-Provision Profit	86,377	100,635	84,799	101,373	(1.8)	0.7
Net Profit	52,290	60,678	53,458	64,139	2.2	5.7
EPS (Rs)	93.1	108.1	95.3	114.3	2.3	5.8

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	128,552	135,936	170,754	199,834	233,681
Interest Exp.	59248	58584	77780	94851	109429
<b>Net Int. Income</b>	<b>69,305</b>	<b>77,352</b>	<b>92,974</b>	<b>104,983</b>	<b>124,252</b>
% Change	15.4	11.6	20.2	12.9	18.4
Non-Int. Income	27,333	31,759	33,912	38,999	45,824
<b>Net Income</b>	<b>96,638</b>	<b>109,111</b>	<b>126,886</b>	<b>143,982</b>	<b>170,076</b>
<b>Total Income</b>	<b>155,885</b>	<b>167,695</b>	<b>204,666</b>	<b>238,833</b>	<b>279,505</b>
Operating Exp.	35,001	40,312	51,534	59,183	68,703
<b>Total Exp.</b>	<b>94,249</b>	<b>98,897</b>	<b>129,314</b>	<b>154,034</b>	<b>178,132</b>
<b>Pre-Prov. Profit</b>	<b>61,636</b>	<b>68,799</b>	<b>75,352</b>	<b>84,799</b>	<b>101,373</b>
Provisions	18,840	17,925	13,854	13,522	15,854
PBT	42,796	50,873	61,498	71,277	85,518
Tax	10,939	12,722	15,350	17,819	21,380
Tax Rate (%)	25.6	25.0	25.0	25.0	25.0
Minority Interests	24	98	152	176	211
<b>Net Profit</b>	<b>31,833</b>	<b>38,053</b>	<b>45,997</b>	<b>53,282</b>	<b>63,928</b>
% Change	16.8	19.5	20.9	15.8	20.0
Adj.	-	-	-	-	-
<b>Adj. Net Profit</b>	<b>31,833</b>	<b>38,053</b>	<b>45,997</b>	<b>53,282</b>	<b>63,928</b>
No. of Shares (cr)	553.1	558.5	560.9	560.9	560.9
<b>Adj. EPS (Rs.)</b>	<b>57.6</b>	<b>68.3</b>	<b>82.3</b>	<b>95.3</b>	<b>114.3</b>
% Change	16.4	18.6	20.4	15.8	20.0
DPS (Rs.)	6.5	15.5	19.0	21.9	26.3

## BALANCE SHEET

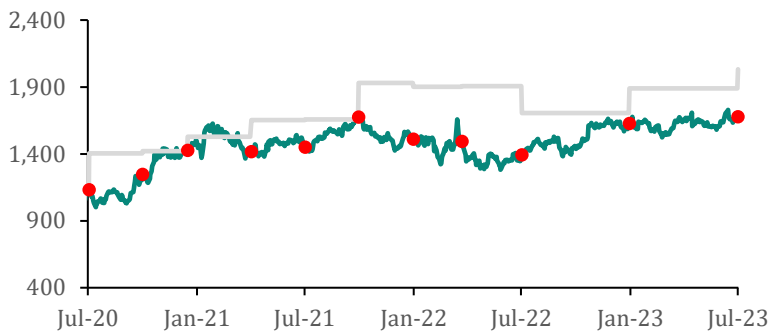
Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	121,273	155,386	197,148	175,865	175,034
Investments	438,823	449,264	511,582	562,740	596,504
Advances	1,185,284	1,420,942	1,661,949	1,943,834	2,284,005
Fixed Assets	5,100	6,283	8,283	10,850	13,997
Other Assets	49,028	91,059	151,471	159,802	170,988
<b>Total Assets</b>	<b>1,799,507</b>	<b>2,122,934</b>	<b>2,530,432</b>	<b>2,853,091</b>	<b>3,240,527</b>
Capital	551	555	558	559	559
Reserves & Surplus	209,259	246,772	288,880	330,042	379,429
Deposits	1,333,721	1,558,003	1,882,663	2,207,423	2,588,203
Borrowings	177,697	226,967	256,549	224,480	190,808
Other Liabilities	78,279	90,639	101,783	90,587	81,528
<b>Total Liabilities</b>	<b>1,799,507</b>	<b>2,122,934</b>	<b>2,530,432</b>	<b>2,853,091</b>	<b>3,240,527</b>
<b>BVPS (Rs.)</b>	<b>379.4</b>	<b>442.8</b>	<b>516.0</b>	<b>589.4</b>	<b>677.4</b>
Adj. BVPS (Rs.)	371.1	435.0	508.2	580.7	669.3
% Change	18.4	17.2	16.8	14.3	15.3

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	25.9	21.6	19.4	17.6	14.7
P/BV (x)	3.9	3.3	3.1	2.8	2.5
Div. Yield (%)	0.4	1.1	1.2	1.3	1.6
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	9.2	8.2	8.8	9.0	9.0
Cost of Deposits	4.2	3.6	4.0	4.2	4.2
Spread	5.0	4.6	4.8	4.8	4.8
NIM	4.5	4.4	4.6	4.5	4.6
ROE	16.5	16.6	17.1	17.2	18.0
ROA	1.9	1.9	2.0	2.0	2.1
<b>Capital Adequacy (%)</b>					
CAR	18.8	18.9	19.3	19.5	20.0
Tier I	17.6	17.9	17.1	17.5	18.2
Tier II	1.2	1.0	2.2	1.9	1.7
<b>Asset Quality (%)</b>					
GNPA	1.3	1.1	1.1	1.0	0.9
NNPA	0.4	0.3	0.3	0.3	0.2
<b>Operating Ratios (%)</b>					
Credit/Deposit	88.9	91.2	88.3	88.1	88.2
Cost/Income	36.2	36.9	40.6	41.1	40.4
CASA	46.2	48.2	44.4	42.5	42.2



## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
22-Apr-21	BUY	1,653
22-Jul-21	BUY	1,658
20-Oct-21	BUY	1,931
20-Jan-22	BUY	1,902
12-Apr-22	BUY	1,907
22-Jul-22	BUY	1,705
19-Jan-23	BUY	1,890
25-Jul-23	BUY	1,964

### 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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