MOTILAL OSWAL
FINANCIAL SERVICES

27 July 2023
Company Update | Sector: Financials

HDFC Bank

BSE SENSEX	S&P CNX
66,267	19,660

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HDFC BANK

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	7538
M.Cap.(INRb)/(USDb)	12615.3 / 154
52-Week Range (INR)	1758 / 1365
1, 6, 12 Rel. Per (%)	-4/-8/1
12M Avg Val (INR M)	17582
Free float (%)	79.2

Financials Snapshot (INR b)

Y/E	FY23	FY24E	FY25E
NII	868	1,221	1,446
OP	704	1,017	1,215
NP	441	647	791
NIM (%)	4.1	3.8	3.9
EPS (INR)	79.3	85.9	105.1
EPS Gr. (%)	18.6	8.4	22.3
BV/Sh. (INR)	502	596	679
ABV/Sh. (INR)	489	580	662
Ratios			
RoE (%)	17.0	15.3	16.5
RoA (%)	1.9	1.9	2.0
Valuations			
P/E(X)	21.1	19.5	15.9
P/BV (X)	3.3	2.8	2.5
P/ABV (X)	3.0	2.5	2.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	20.8	20.9	21.0
DII	22.0	23.1	22.2
FII	45.6	44.7	44.8
Others	11.5	11.3	12.0

FII Includes depository receipts

CMP: INR1,674 TP: INR2,070 (+24%) Buy

Opportunity meets Execution!

Sustainable growth ahead; RoE to revert to pre-merger levels by FY26E

- **HDFC Bank (HDFCB) has delivered an exemplary track record over the past two decades that only a few companies in the world can take pride in (27% earnings CAGR in past 20 years). The merged entity is set to extend its lead as the second-largest bank in the country, with a market share of 16% in loans and 11% in deposits.**
- **The merger will help the bank improve asset duration and enable sustainable growth over the long term, with mortgage mix rising to 33%. We estimate the loan book to grow to INR 34.7t by FY26E with a ~17% CAGR (B/s size of INR 49t).**
- **About 70% of HDFC Ltd (HDFC) customers do not have a banking relationship with HDFCB, while out of total ~85m customers of HDFCB, only 5% of them have taken mortgages (2% from HDFC Ltd). This offers a significant cross-sell opportunity, and along with aggressive distribution expansion, it would enable healthy loan growth over the medium term. According to the bank, home loan customers have 7x higher deposit balance potential than those not availing home loans.**
- **Margins are likely to moderate to ~3.8% in FY24E; however, a gradual re-pricing of borrowings and high-cost deposits of HDFC will lead to a 15-20bp gain in NIM to ~4% by FY26E. We estimate the cost-income (C/I) ratio to moderate to 35% by FY26E, which will compensate for lower margins and will support earnings.**
- **We estimate PAT of INR646b/INR791b/INR963b over FY24/FY25/FY26, translating into RoA of 1.9-2.1%. We estimate RoE to decline in FY24 and thereafter gradually revert to pre-merger levels of 17%+ by FY26E. HDFCB (Buy) remains one of our preferred stocks in the sector with a TP of INR2,070.**

A new era in banking unfolds: Opportunities –> Challenges –> Execution –> Milestones!

HDFCB has become the largest banking franchise in the country by net worth. We estimate the bank to become the highest-profit-making financial entity from FY24E onward. On the basis of market cap, the bank already ranks among the top 3 in the country and among the top 7 lenders in the world. The merged entity has 182k employees, and given the pace of growth, we estimate the bank to become the largest financial employer in the next five years and emerge as a contender for the largest bank in the country by the end of the current decade. While the possibilities are endless, relentless execution, strong governance standards and superior underwriting will be critical for the bank to create shareholder wealth and deliver on its immaculate track record of a 20% earnings CAGR, which we expect the bank to sustain over the medium term.

Merged entity to have total loan book of INR22.45t as on 1QFY24

The merged entity will have a combined loan book of ~INR22.45t, increasing its market share to 15.6%. Its deposit base will increase to ~INR20.65t (10.8% market share), while the CASA mix will moderate to 37.4% from 44.4% currently for HDFCB. We estimate the bank to grow its advances portfolio at a 17% CAGR and increase its deposit base at a 19% CAGR. We thus estimate the CD ratio to moderate to 103% by FY26E from 109% currently.

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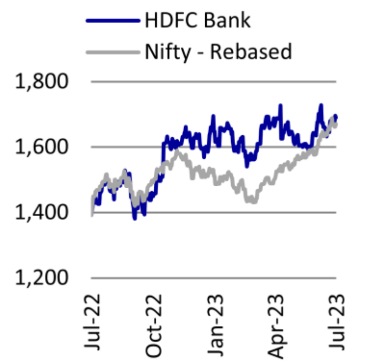
Stock Performance (1-year)



Retail mix to improve to ~53%; mortgages to comprise ~33% of loans

The merger will enable HDFCB to create a more diversified franchise, with the mix of Retail loans improving to ~53% of total loans. Further, the mix of mortgages will increase to almost ~33% vs. ~11% before the merger. Commercial and Rural banking (including Agriculture) will account for ~23%, while the corporate mix will be ~16%. We believe that while the banking system is currently in a sweet spot, the merger will help HDFCB reduce its dependence on cyclical segments like unsecured loans, vehicles, etc. Accordingly, it will enable sustainable growth in the retail portfolio, which has been under pressure in the prior years (FY21-22).

Capacity in place; deposit mobilization will be critical to sustain growth

HDFCB has been making aggressive investments to ramp up its distribution capabilities. In FY23, the bank added 1,479 branches and over 31k employees (added 8.5k employees in 1QFY24). In FY23, the bank added ~INR3.2t of deposits, taking its incremental deposit market share to 21% (16% in FY22). HDFCB plans to add another 1,400-1,500 branches in FY24, much higher than peers. We believe that expanding distribution and improving branch vintage will keep the deposit traction healthy and will help the bank garner granular deposits. Home loan customers reflect potential of 7x deposit balance vis-à-vis those not availing home loans and improved cross selling will thus enable faster liability growth. We estimate the deposit base to increase by INR4.5t/INR5.3t over FY25/FY26.

Margins to moderate to 3.8% in FY24E; likely to recover to 4% by FY26E

The increase in mix of home loans, higher mix of borrowings and compliance with SLR/CRR requirements would dent margins. We, thus, estimate margins to decline to 3.75%-3.80% in FY24E; however, in the medium term, we expect margins to recover gradually as the funding cost normalizes and borrowings are replaced by low-cost deposits. We, thus, estimate margins to recover to 4% by FY26E even as we expect CASA mix to fall further and remain in the 37-38% range over FY24-25E.

Expect synergies in terms of lower funding and operating costs

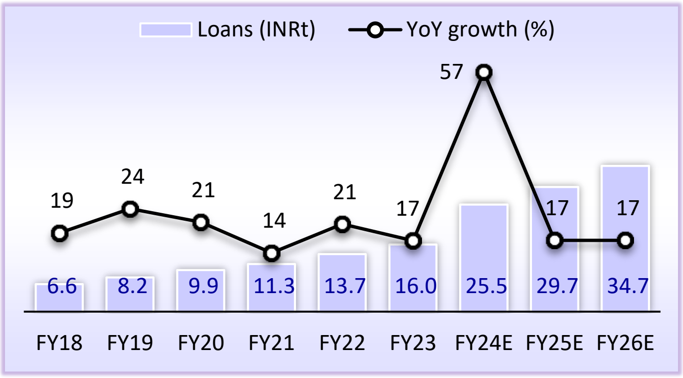
The merger would result in synergies for the bank in terms of reduction in funding and operating costs. The cost of funds for HDFC is >200bp higher than that of HDFCB, while the term deposit rates offered by HDFC are also higher. A gradual change in the funding mix as high-cost borrowings are replaced by deposits would enable a calibrated reduction in the cost of funds. The C/I ratio for the merged entity will decline to ~37% in FY24 (40% in FY23) and will improve further 40-60bp every year on a sustained improvement in operating leverage and recovery in margins. This will enable the bank to continue to invest in branches and distribution.

Valuation and View

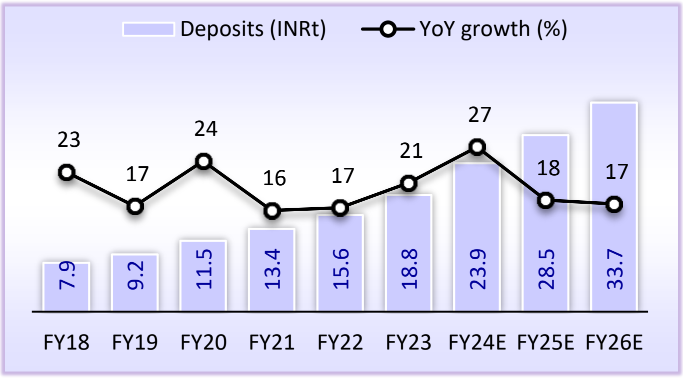
The merger will enable HDFCB to build a more diversified and robust franchise with sustainable growth. The increased customer base, strong technological edge and robust distribution should help the bank improve cross-selling to customers over their life cycle with the bank. The merged entity's C/I ratio would decline to ~35% by FY26E and boost RoA on a structural basis. We estimate a ~22% CAGR in net earnings over FY24-26, while RoA would expand to 2.1%. We estimate RoE to drop 170bp in FY24E and thereafter gradually revert to pre-merger levels of 17%+ by FY26E. HDFCB (Buy) remains one of our preferred stocks in the sector with a TP of INR2,070 (premised on 2.8x FY25E ABV + INR211 from subs).

STORY IN CHARTS

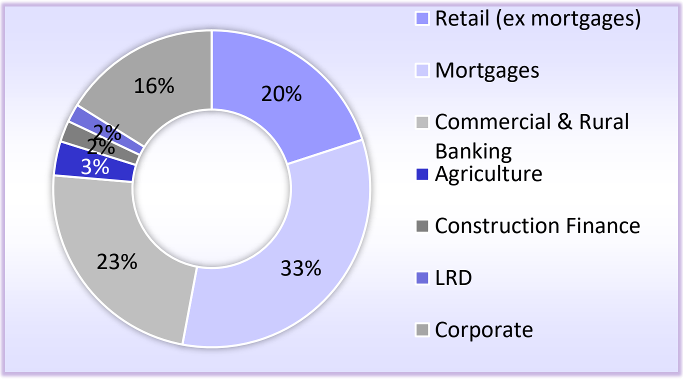
Advances to grow at ~17% CAGR over FY24-FY26E



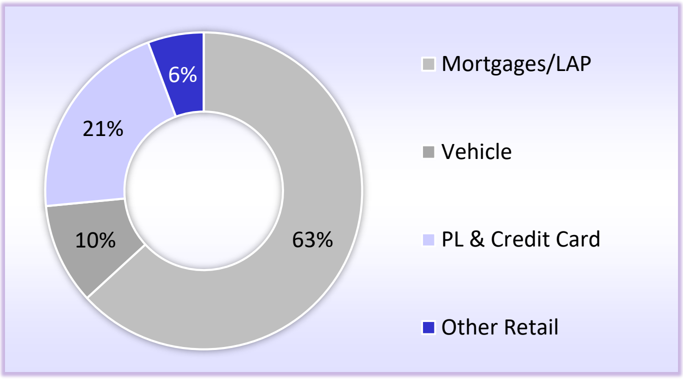
Estimate deposits to grow at 19% CAGR over FY24-FY26E



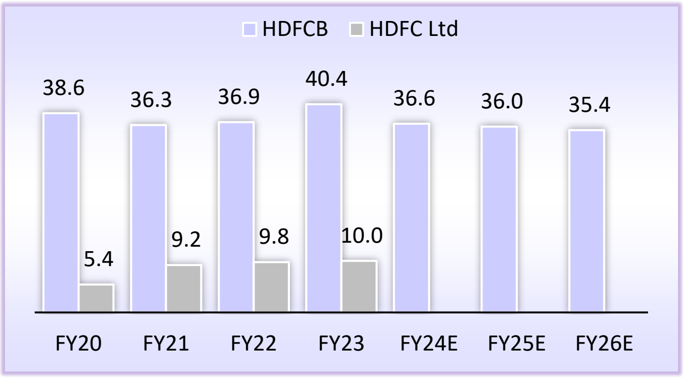
Pro-forma loan mix of the merged entity



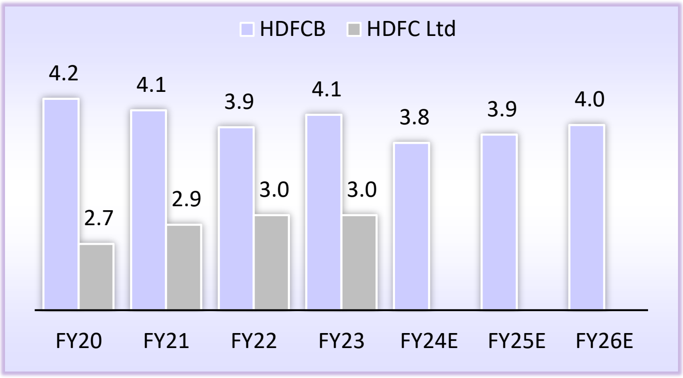
Pro-forma retail loan mix of the merged entity



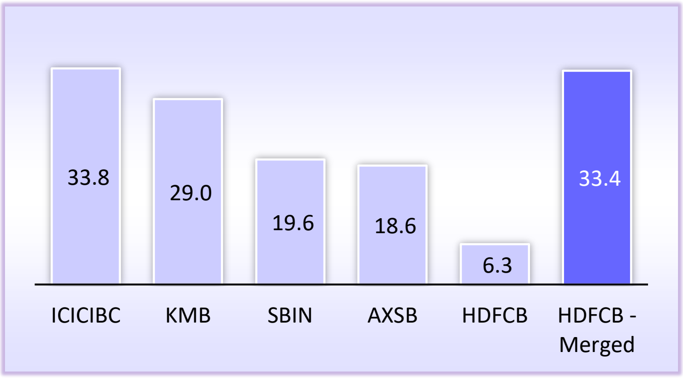
Cost-income ratio to moderate to 35.4% by FY26E



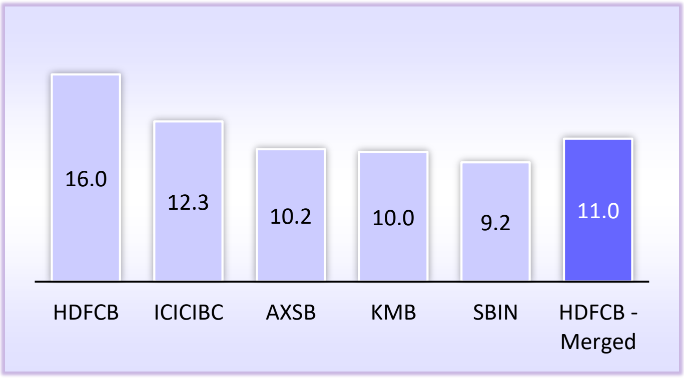
NIMs to decline to 3.8% in FY24 and improve thereon to 4%



Home loan mix across banks as on FY23: Merged entity to be broadly similar to larger peers



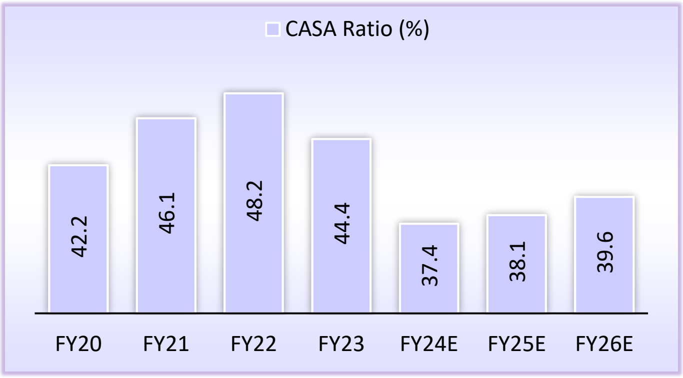
Unsecured loan mix across banks as on FY23: Merged entity to see moderation in unsecured mix



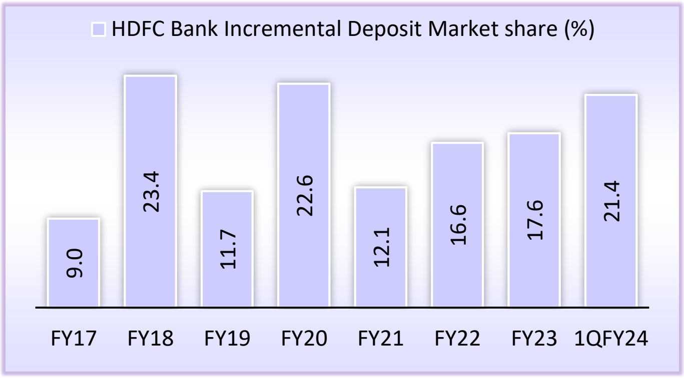
Source: MOFSL, Company

STORY IN CHARTS

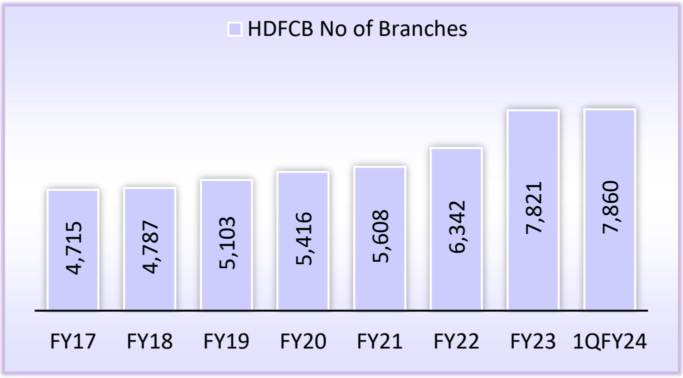
Merged entity CASA to moderate to 37.4% in FY24E



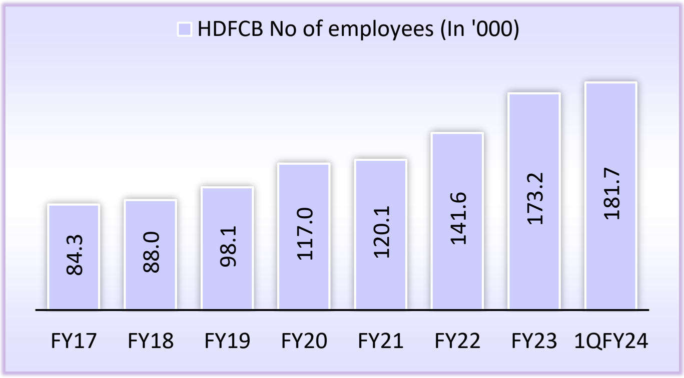
HDFCB Incremental deposit market share increased to 21%



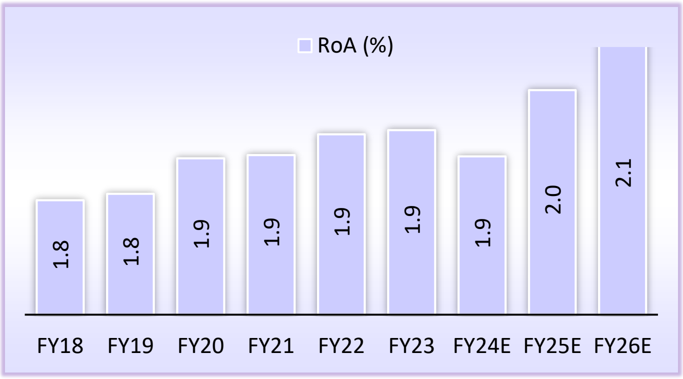
No. of branches have grown at accelerated pace



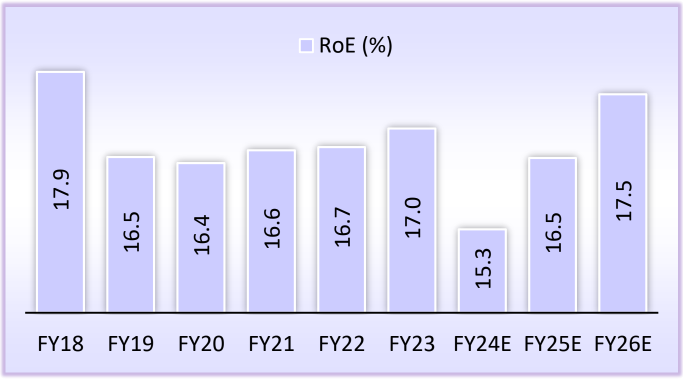
Employee base has increased to 188.7k from 88k in FY18



ROA to increase to 2.1% by FY26E



ROE to rise to pre-merger levels by FY26E after a dip in FY24E



Source: MOFSL, Company

Incremental CRR/SLR requirement seems manageable

CRR requirement	INR b
NDTL	3,600
Reserve Requirement	4.50%
CRR reserve requirement	**162.0**
SLR requirement	
NDTL	4,700
Reserve Requirement	18.0%
SLR requirement	**846.0**
Total CRR + SLR requirement (INR b)	**1,008**
G-Sec + Other surplus on HDFC Ltd. books	635
Balance to be funded from Bank surplus	373
- As % of Bank's NDTL	1.8%

Source: MOFSL, Company

HDFCB SOTP Valuation

	Value INR b	Per Share INR	% of Total
HDFC Bank	**13,989.5**	**1,859**	**89.8**
HDB Financial Services	534.4	71	3.4
HDFC Securities	203.4	27	1.3
HDFC Life Insurance	766.4	102	4.9
HDFC Ergo General Insurance	127.5	17	0.8
HDFC AMC	244.0	32	1.6
HDFC Credila	86.8	12	0.6
Bandhan Bank	20.7	3	0.1
Value of Subs (Post Holdco Disc)	**1,586.6**	**211**	**10.2**
Target Price	**15,576.1**	**2,070**	

Source: MOFSL, Company

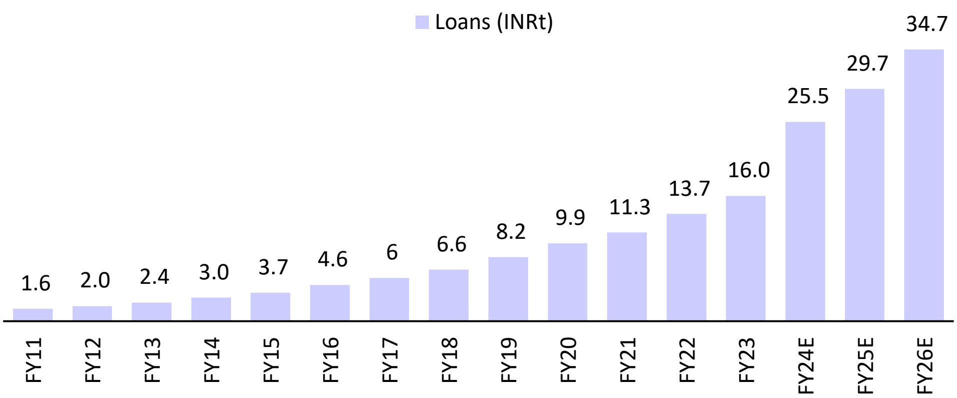
Merged entity loan book rises to INR22.45t as on 1QFY24

Estimate 22% CAGR in PAT over FY24-26 to INR963b

- As per our pro-forma analysis, the merged entity's loan book will increase to ~INR25.5t in FY24E from ~INR22.1t in FY23. Total assets would increase to INR36.3t in FY24E from INR31.9t in FY23, while its combined net worth would be ~INR4.5t in FY24E. The deposit base for HDFCB is likely to increase by ~27% to ~INR23.9t in FY24E. However, the CASA ratio may moderate by ~700bp to 37.4% in FY24E from 44.4% in FY23 for HDFCB. CAR would increase to ~19.6% (+30bp) with Tier-1 of 18.1% (+100bp) as on FY24E. Total branches for the bank will increase to 8,344 with a combined strength of ~177k employees as on FY23 (188k employees as on 1QFY24).
- Further, we estimate PAT to grow to INR647b in FY24 and to INR963b by FY26 from INR441b in FY23 for standalone HDFCB. Margins could moderate to ~3.8% in FY24E from 4.1% now for HDFCB, which will be offset by a decline in the C/I ratio to ~37% by FY24E.
- GNPA/NNPA ratios are likely to be stable at ~1.1%-1.2%/0.3%-0.4% over FY24E-FY26E. PCR is likely moderate to ~70% in FY24E from ~76% in FY23 for the standalone bank. As a result, RoA for the merged entity should be ~1.9% in FY24E (similar to the standalone bank in FY23) as the merger stands to be EPS/BV accretive right from the beginning (due to extinguishment of shares held by HDFC).
- However, the near-term profitability is likely to remain under pressure due to a drag from the CRR, SLR and PSL requirements, though the overall impact seems manageable given the relaxation given by the RBI to defer the PSL requirement over a period of three years. Nevertheless, we estimate RoE to moderate to 15.4% in FY24 (vs. 17% in FY23 for standalone bank) on account of lower leverage.
- Based on the share swap ratio, HDFC shareholders have received 42 shares of HDFCB for every 25 shares of HDFC held by them. After the merger, HDFC's shareholding in HDFCB has extinguished and HDFC shareholders now own ~41% in HDFCB.

HDFCB have increased their advances at 21% CAGR over FY11-FY23

Exhibit 1: HDFCB Loans are expected to increase by 17% CAGR over FY24-FY26



Source: MOFSL, Company

Exhibit 2: Pro-forma merged financials for HDFCB and HDFC; RoE to moderate by ~200bp, Margins to contract by 30bp in FY24

FY23 (INR b)	HDFCB	HDFC Ltd	FY23 Merged	FY24E	FY25E	FY26E
Profit & Loss						
Net Interest Income	**868**	**192**	**1,061**	**1,221**	**1,446**	**1,727**
Non-Interest Income	312	50	362	384	453	530
Total Income	**1,181**	**242**	**1,423**	**1,605**	**1,899**	**2,257**
Operating Expenses	477	24	501	587	684	798
Pre Provision Profits	**704**	**218**	**922**	**1,017**	**1,215**	**1,459**
Provisions	119	18	137	160	166	181
PBT	**585**	**200**	**785**	**858**	**1,049**	**1,278**
Tax	144	38	182	211	258	314
PAT	**441**	**162**	**603**	**647**	**791**	**963**
Balance Sheet						
Net-worth	2,802	1,298	4,100	4,486	5,112	5,894
Deposits	18,834	1,521	20,355	23,934	28,481	33,750
Borrowings	2,068	4,161	6,229	6,485	6,857	7,379
CASA Deposits	8,360	-	8,360	8,951	10,851	13,365
Loans	16,006	6,084	22,089	25,451	29,650	34,691
Total Assets	**24,661**	**7,268**	**31,929**	**36,284**	**42,021**	**48,816**
Asset Quality						
GNPA	180	90	270	299	323	370
NNPA	44	42	86	89	88	99
GNPA ratio	1.1	1.4	1.2	1.2	1.1	1.1
NNPA ratio	0.3	0.7	0.4	0.4	0.3	0.3
PCR	75.8	53.2	68.3	70.2	72.9	73.3
Key Ratios						
NIM	4.1	3.6	3.7	3.8	3.9	4.0
CASA Ratio	44.4	-	41.1	37.4	38.1	39.6
Cost/Total Income	40.4	10.0	35.2	36.6	36.0	35.4
RoE	17.0	13.2	14.7	15.3	16.5	17.5
RoA	1.9	2.3	1.9	1.9	2.0	2.1
Others						
Branches	7,821	523	8,344			
Employees	173,222	4,017	177,239			

Source: MOFSL, Company

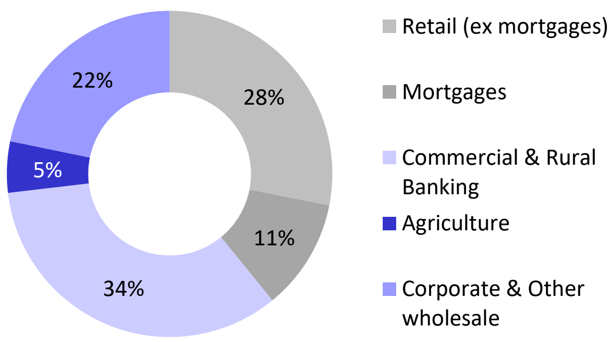
Retail mix to surpass 50%; mortgages mix to rise to ~33%

Improvement in productivity and cross-sell to aid growth momentum

Mortgage mix to rise to 33% from 11% for HDFCB

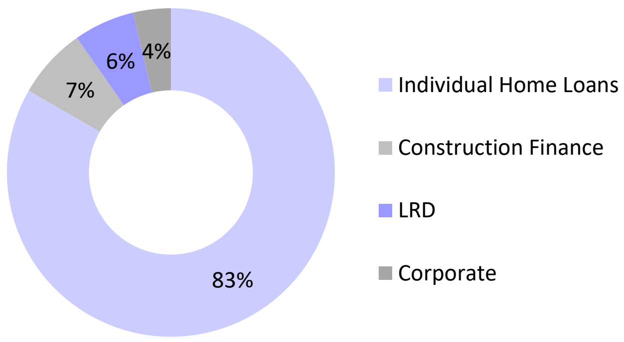
- The mix of retail loans for HDFCB currently stands at ~39% of total loans, mainly led by the unsecured segment. The mix of unsecured loans for HDFCB stands relatively higher at 16% vs. 9-12% for other major peers. Since home loans are being offered by HDFC and HDFCB purchases loans under the assignment route, the mix of home loans stands much lower at 11% for HDFCB vs. 34%/29% for ICICIBC/KMB and 19-20% for AXSB and SBIN. As a result, the average duration of the portfolio is lower, which requires a higher disbursement run rate to sustain healthy loan growth.
- We believe that the merger will enable HDFCB to create a more diversified portfolio, with the mix of Retail loans improving to more than 50% of total loans. Further, the mix of mortgages may increase to almost one-third of total loans vs. ~11% currently. Commercial and Rural banking (including Agriculture) would account for 27%, while the corporate mix would be ~16%.
- We thus believe that the merger will help HDFCB to improve asset duration and reduce cyclicality as observed in vehicle and unsecured businesses over recent years. This will help the bank deliver sustainable growth, particularly in the retail segment, which has been under pressure in recently.

Exhibit 3: Loan Mix – HDFCB as on 4QFY23



Source: MOFSL, Company

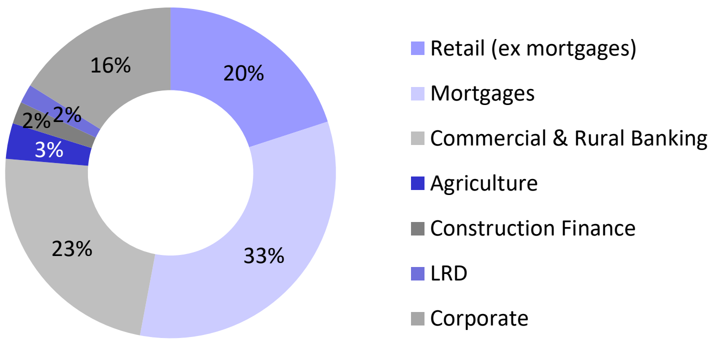
Exhibit 4: Loan Mix – HDFC as on 4QFY23



Source: MOFSL, Company

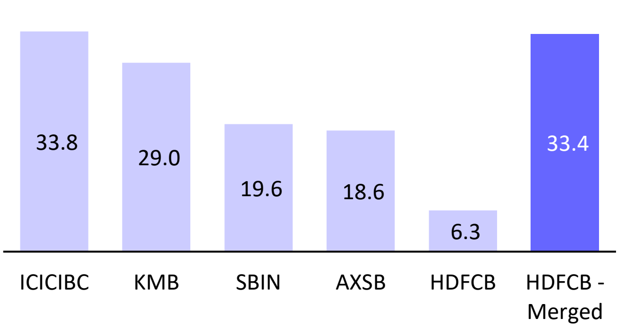
Mix of home loans to increase to ~33% of the total book – comparable to other major peers

Exhibit 5: Pro-forma loan mix of the merged entity - 4QFY23



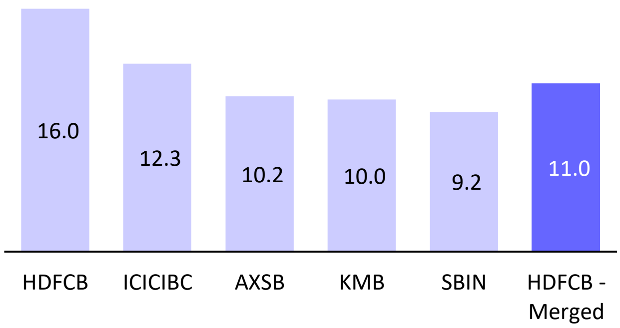
Source: MOFSL, Company

Exhibit 6: Home loan mix across banks as on FY23: Merged entity home loan to increase substantially



Source: MOFSL, Company

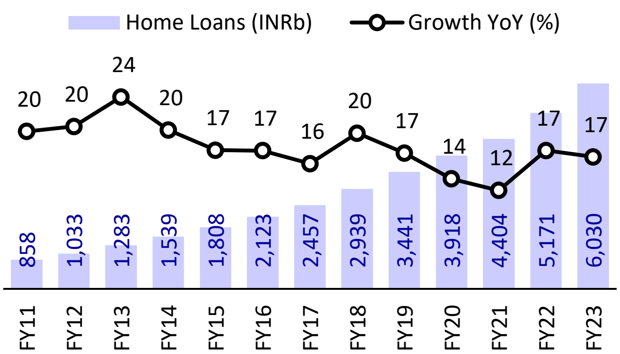
Exhibit 7: Unsecured loan mix across banks as on FY23: Merged entity to see moderation in unsecured mix



Source: MOFSL, Company

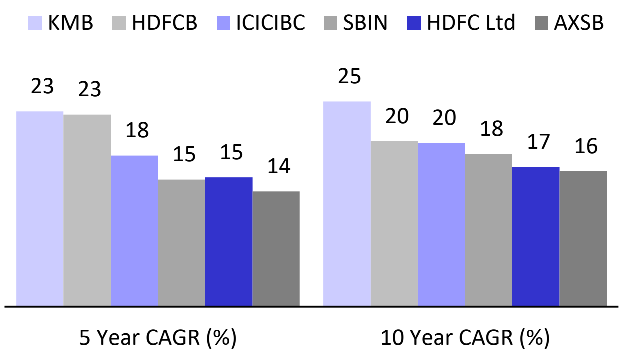
- We note that individual home loans for HDFC saw a healthy 15%/17% CAGR over the past 5 years/10 years, while KMB and ICICIBC clocked a higher CAGR of 23-25% and 18-20%, respectively. SBIN and AXSB grew at a broadly similar pace. Bulk of the sourcing for HDFC is done by its sales network (~51%), while HDFCB sources ~31% of loans. This is much lower compared to other peers like ICICIBC, AXSB and SBIN, where bulk of the sourcing is done by branches.
- As a result, **productivity in terms of home loans per branch stands much higher for ICICIBC/KMB at INR584m/INR521m vs. INR131m for HDFCB. The same for AXSB/SBIN too stands higher at INR321m/INR286m.** HDFCB thus has a lot of scope to improve on home loans per branch metric after the merger as the focus of the branches would increase on originating home loans and bank launches this product across its entire branch network.
- Further, ~70% of HDFC customers do not have banking relationship with HDFCB, while out of HDFCB's ~83m customers, only 5% have taken mortgages (only 2% from HDFC), which offers a significant cross-sell opportunity. This, coupled with a low penetration, would help the bank deliver sustainable growth.

Exhibit 8: Individual home loans for HDFC grew 15%/17% over the past 5/10 years



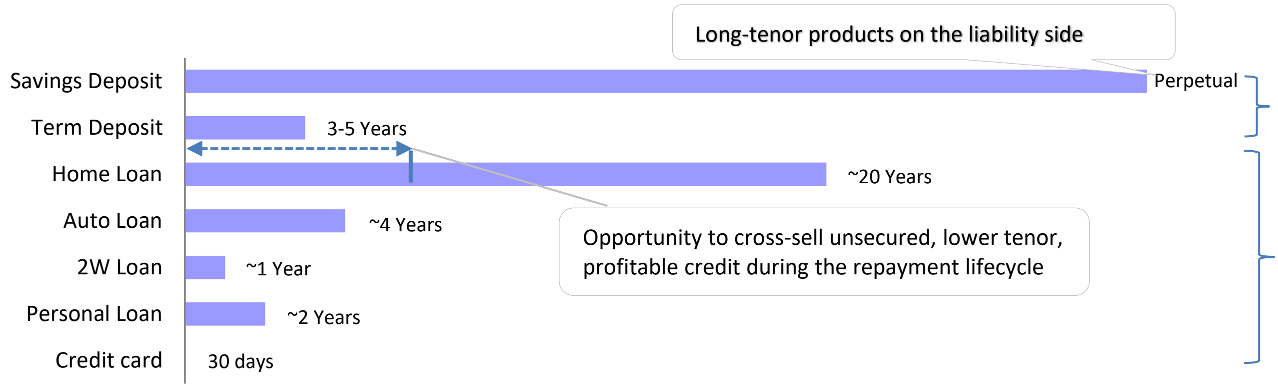
Source: MOFSL, Company

Exhibit 9: Home loan growth across major peers: KMB and ICICIBC grew the fastest, while rest were broadly similar



Source: MOFSL, Company

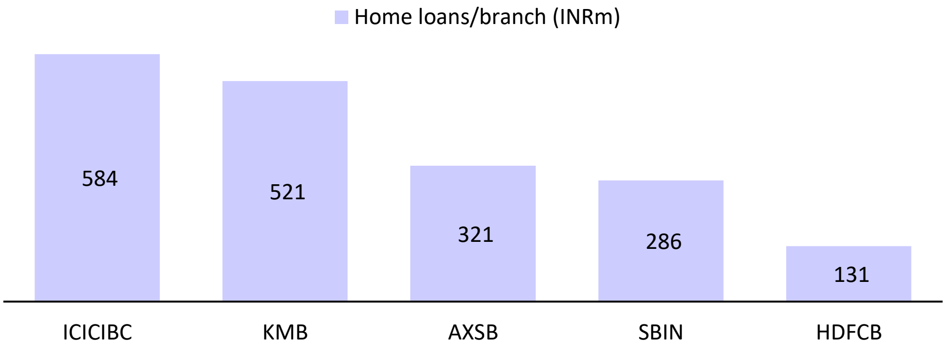
Exhibit 10: High proportion of home loan mix to improve cross-selling rate of shorter-tenor products



Source: MOFSL, Company

We expect productivity to improve post-merger with increased focus of branches on originating home loans

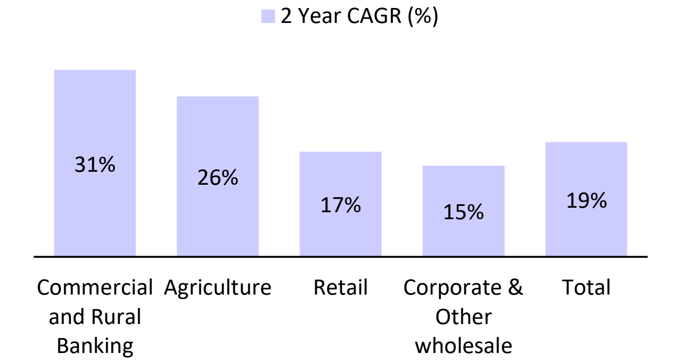
Exhibit 11: Home loans per branch productivity as on FY23: HDFCB stands significantly lower, providing significant growth opportunity



Source: MOFSL, Company

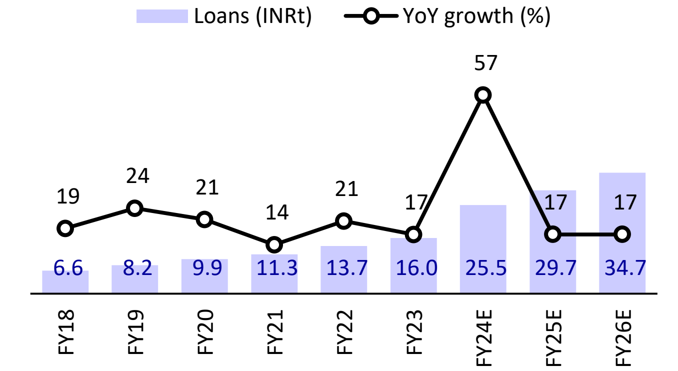
- HDFCB has been focusing on growing its Commercial & Rural (CRB) and Agri banking book, which has grown at a robust pace. Growth in its Corporate and Retail book has been modest. Over the past two years, its CRB and Agri book saw a 31%/26% CAGR, while its Corporate/Retail loans clocked 15%/17% CAGRs. The bank remains upbeat on the sustained momentum in the Commercial book, which, coupled with an improving trend in Retail and Corporate loans, will boost overall growth. We thus estimate a 17% CAGR in total loans over FY24-26 after the merger.
- Over the past many years, HDFCB has been operating as a self-funded machine and has not raised any capital, even during Covid. This is unlike most other banks, which raised capital over FY20-23. Further, after the merger, Tier-I ratios are likely to improve and we estimate Tier-I and CAR ratios at 17%-18%/18%-20% over FY24-26. We thus believe that the bank is sufficiently capitalized, which will support overall growth momentum over the medium term.

Exhibit 12: HDFCB loan growth: Driven by Commercial, Rural & Agri banking while Retail/Corporate saw modest growth



Source: MOFSL, Company

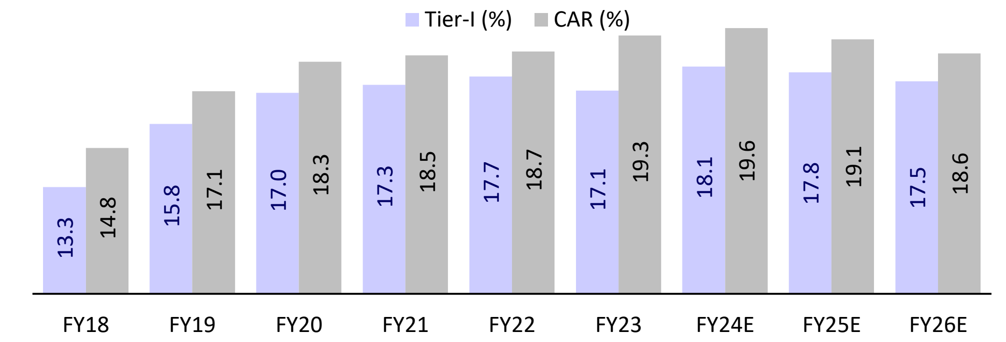
Exhibit 13: We estimate a healthy ~17% CAGR in loans over FY24-26 after merger



Source: MOFSL, Company

Bank adequately capitalized to support the growth momentum

Exhibit 14: Capital ratios to improve after the merger, thus supporting growth over medium term



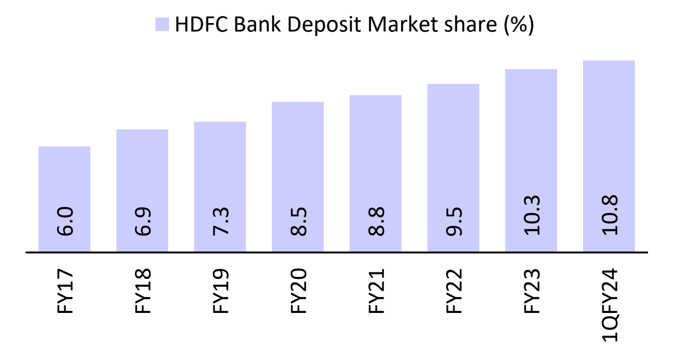
Source: MOFSL, Company

Liability accretion gaining pace; branch expansion to aid growth

Improving branch vintage to further accelerate liability growth

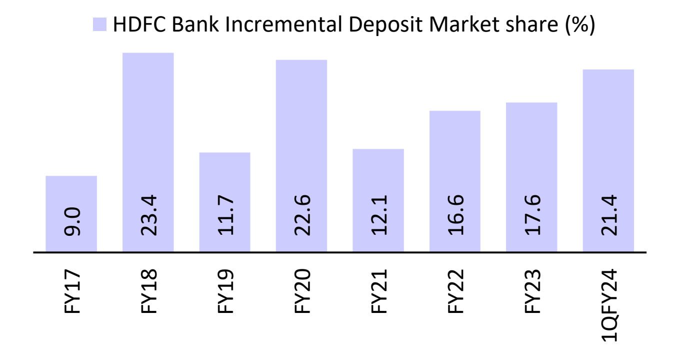
- Due to an increased deposit funding requirement after the merger, HDFCB has been focusing on increasing its market share in incremental deposits over the past few quarters, with an aim to add ~INR4-5t worth of deposits on a yearly basis. The bank added ~INR3.2t in FY23 and INR1.8t during 1QFY24. As a result, the incremental market share in deposits for HDFCB increased to ~21% in 1QFY24 from 16% in FY22. Overall, the bank increased its market share to 10.8% in 1QFY24 from a mere 4% in FY13.

Exhibit 15: HDFCB's market share in total deposits stands at 10.8% as on 1QFY24



Source: MOFSL, Company

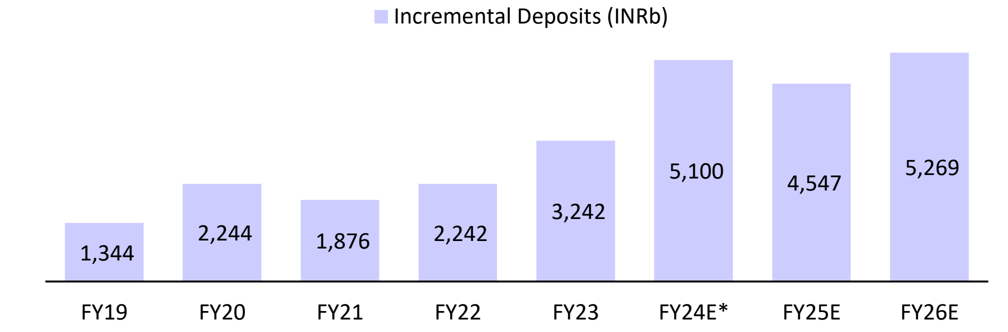
Exhibit 16: Incremental market share in deposits for HDFCB increased to 21% in 1QFY24



Source: MOFSL, Company

Exhibit 17: HDFCB is estimated to add INR4.5b/INR5.3b deposits in FY25/FY26

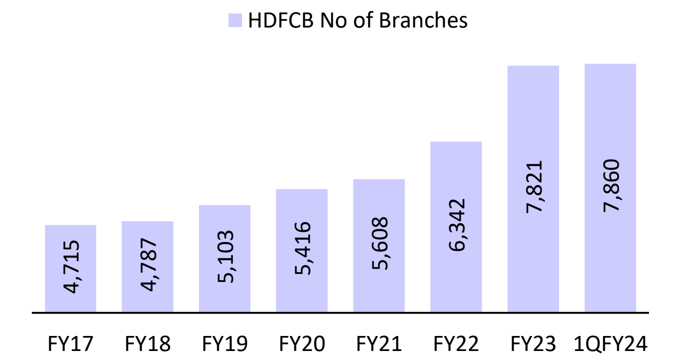
With effect of the merger, HDFCB will add INR5.1b (INR1.5b of HDFC) deposits in FY24



*Incremental deposits in FY24 include INR1.5b worth deposits from HDFC   Source: MOFSL, Company

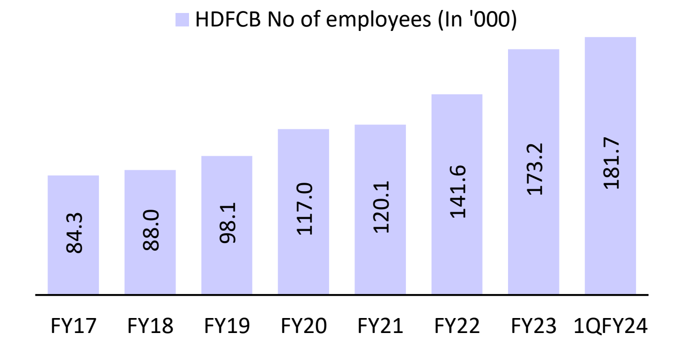
- The bank has been constantly making investment in its physical branches and leveraging it to acquire incremental deposits. It added 734 branches in FY22 before adding 1,479 branches in FY23 and has added another 39 branches in 1QFY24. HDFCB plans to add another 1,400-1,500 branches in FY24, much higher than other peers. We believe the branch expansion will keep the deposit traction healthy and will help the bank garner granular deposits. This will then be utilized to replace the high-cost borrowings of HDFC and support business growth for the merged entity.
- We further note that HDFCB gained the highest incremental market share in deposits in FY23 and also aggressively added to its branch count and employee strength. The increase in the employee count has played well for the bank as they are able to accumulate higher deposits per employee, thereby benefitting from improved operating leverage.

Exhibit 18: No. of branches have more than doubled over past 8 years to reach 7,860 as on 1QFY24



Source: MOFSL, Company

Exhibit 19: No. of employees increased to 188.7k in 1QFY24 from 88k in FY18



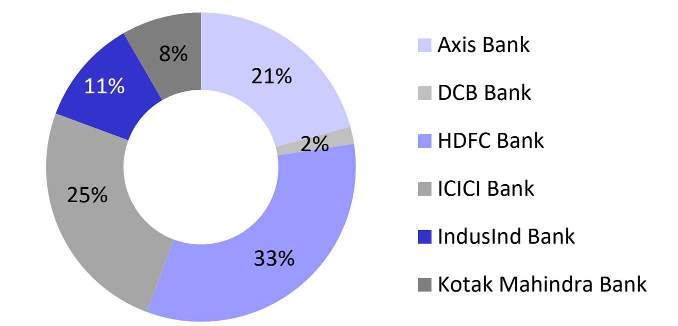
Source: MOFSL, Company

Exhibit 20: FY24 branch expansion plans for major banks

Branch expansion guidance	FY24
ICICIBC	700-800
KMB	150
AXSB	500
FEDB	100
HDFCB	**1,400-1,500**
IIB	250-300

Source: MOFSL, Company

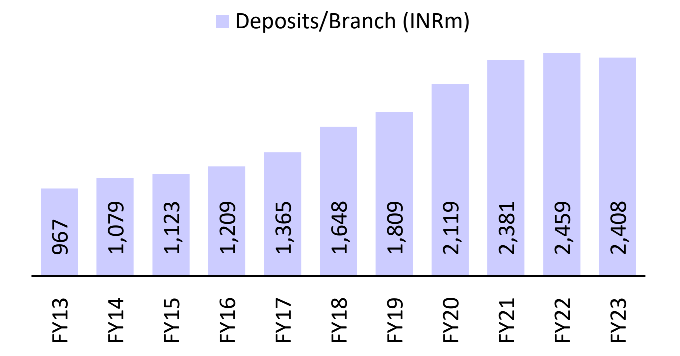
Exhibit 21: HDFCB has highest share of branches among some of the largest private banks



Source: MOFSL, Company

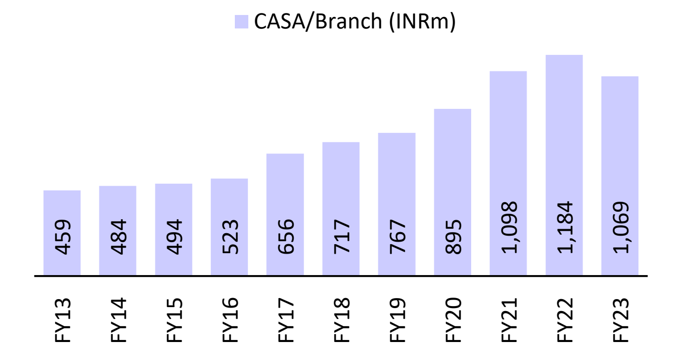
- We note that the bank has improved its operational productivity, with deposits per branch at INR2.4b in FY23 vs. INR967m in FY13. Similarly, CASA deposits/SA deposits per branch improved to ~INR1.1b/INR719m in FY23 from INR459m/ INR288m in FY13.
- Further, HDFCB added ~31k employees in FY23 (~8k in 1QFY24), the highest addition ever, which resulted in a slight moderation in SA deposit per employee to INR32.5m. However, in the long term, the bank has improved its SA deposit per employee at a CAGR of 10% to INR32.5m in FY23 from INR12.8m in FY13. Home loan customers reflect potential of 7x deposit balance vis-à-vis those not availing home loans and improved cross selling will thus enable faster liability growth.
- While the bank has witnessed a gradual improvement over the longer term, the business productivity has been stagnant over the past few years given higher investments by the bank. On an average, branches mature in 18-24 months and we thus believe that new branches would start to contribute more in the coming years. This would aid the overall productivity and support in garnering incremental business, thereby resulting in improved operational efficiency.

Exhibit 22: Deposits per branch have been stagnant over the past few years; expect it to improve



Source: MOFSL, Company

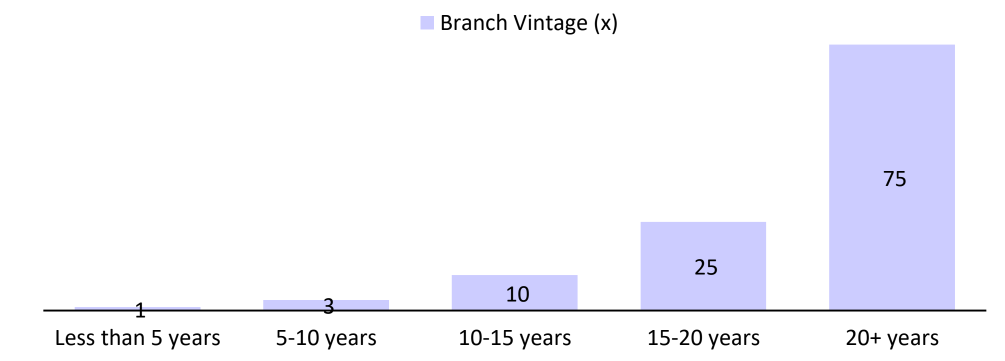
Exhibit 23: CASA deposits per branch moderated over the past few years; expect it to improve



Source: MOFSL, Company

Leveraging the power of branch banking; well Poised for mobilizing deposits at a higher run-rate

Exhibit 24: Deposit sourcing capability of branch grows multifold with rising vintage

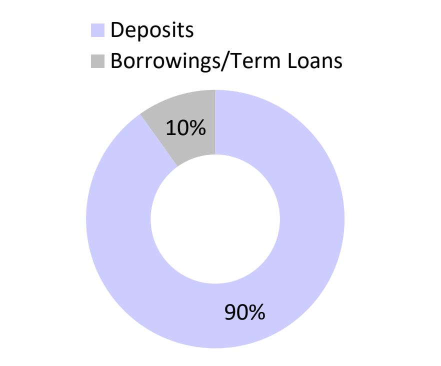


Source: MOFSL, Company

- For HDFCB, deposits account for 90% of its funding needs, while borrowings account for the remaining ~10%. For HDFC, about 45% of funding comes from Bond, Debentures and CPs, while deposits make up ~27% and borrowing/term loans form 28%. After the merger, deposits are likely to account for ~77%, while the combined funding through Bonds/ debentures and term loans is likely to be ~23%. Moreover, the mix of retail deposits is likely to be ~82% for the merged entity while the CASA ratio would moderate to ~41%. Further, HDFC has a monthly scheduled payment of INR100-150b, which would further lower the mix of borrowings over FY24/25.

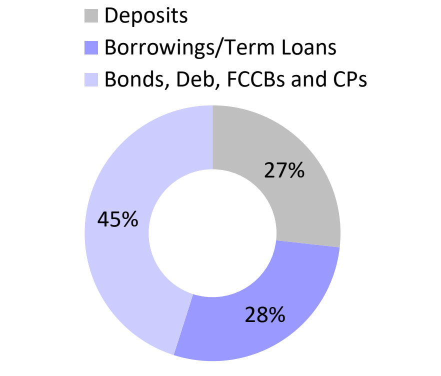
- We believe that the cost of funds for the merged entity would moderate over the medium term as HDFC's high-cost borrowings are replaced with deposits of the bank. This is likely to offset some pressure on margins, which we estimate to decline by ~30-40bp after the merger. Overall, we expect an ~19% CAGR in deposits over FY24-26 for the merged entity.

Exhibit 25: HDFCB as on 4QFY23



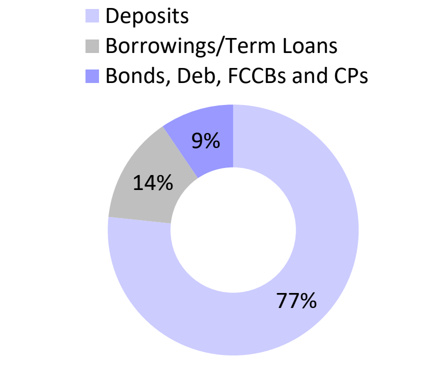
Source: MOFSL, Company

Exhibit 26: HDFC as on 4QFY23



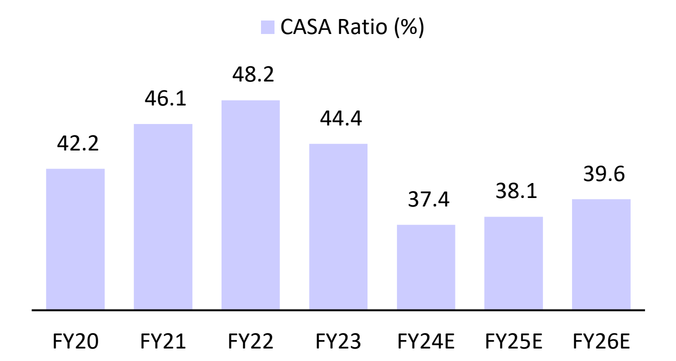
Source: MOFSL, Company

Exhibit 27: Pro-forma merged entity



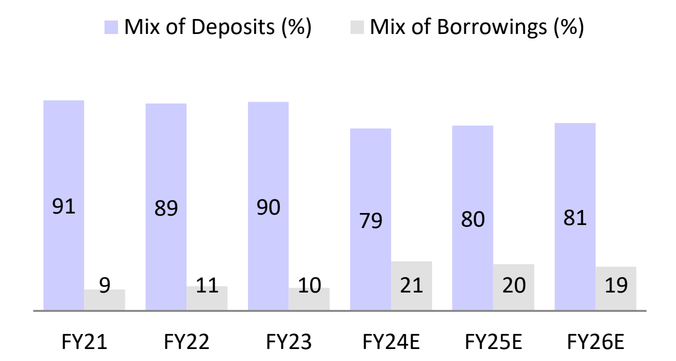
Source: MOFSL, Company

Exhibit 28: CASA ratio to moderate further to 37.4% in FY24



Source: MOFSL, Company

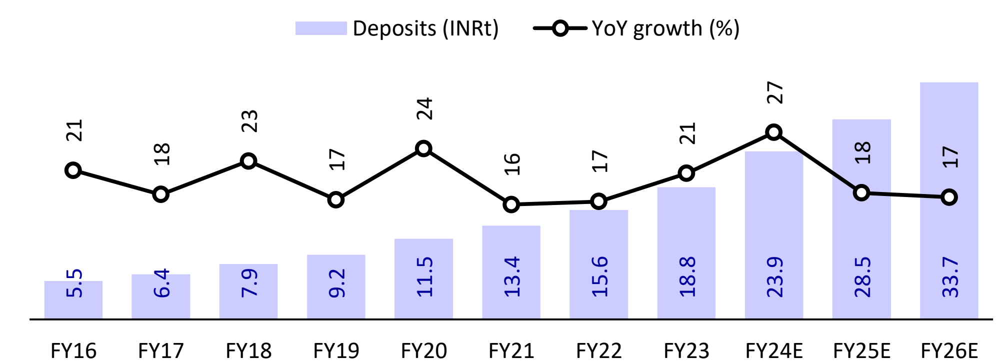
Exhibit 29: Mix of borrowings to increase in total funds



Source: MOFSL, Company

We expect a 19% CAGR in deposits over FY24-26

Exhibit 30: Estimate ~19% CAGR in deposits over FY24-26



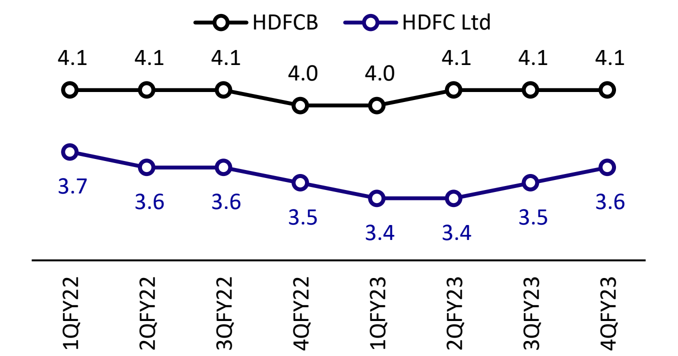
Source: MOFSL, Company

NIMs to contract 30-40bp; mix of floating loans to increase

Estimate gradual margin recovery over FY24-26

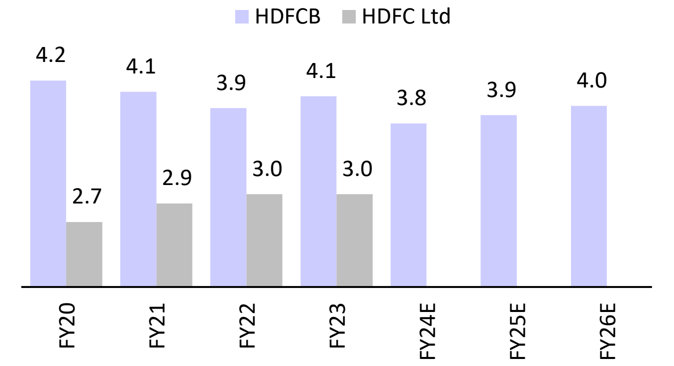
- We estimate margins for the merged entity to moderate to 3.8% in FY24 vs. 4.1% for the bank. The merger will help HDFCB increase the mix of its floating-rate book as ~85% of HDFC's loans are floating in nature v/s ~55% for the bank. This will thus bring HDFCB closer to other peers, which have a floating book of ~70-75%. Accordingly, it will help the bank reduce its reliance on the cyclicality of business (as mortgages have a longer duration).
- While there would be pressure on overall NIM, we believe that the merger would result in synergies for both the entities in terms of reduction in the cost of funds and operating costs. The cost of funds for HDFC stands at ~6.7%, which is 280bp higher than the bank. Similarly, the cost of deposit for HDFC stands 260bp higher than the bank. We estimate margins to moderate to 3.8% in FY24 and then improve gradually to 4.0% by FY26.

Exhibit 31: Margin trend for HDFCB and HDFC – Bank's margin stands ~50-70bp higher than HDFC's



Source: MOFSL, Company

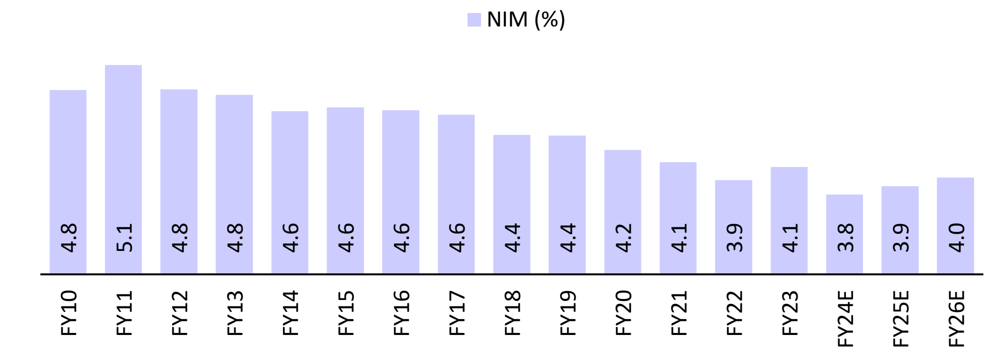
Exhibit 32: Margin to moderate to 3.8% in FY24 vs. 4.1% for the bank in FY23



Source: MOFSL, Company

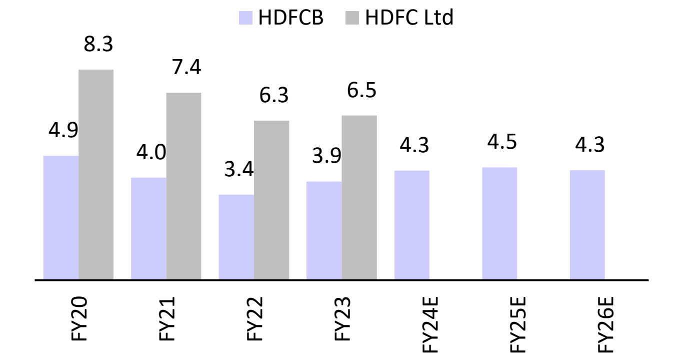
Margins to witness a gradual improvement over FY24-26E

Exhibit 33: Margins to moderate in FY24 and recover to 4% by FY26



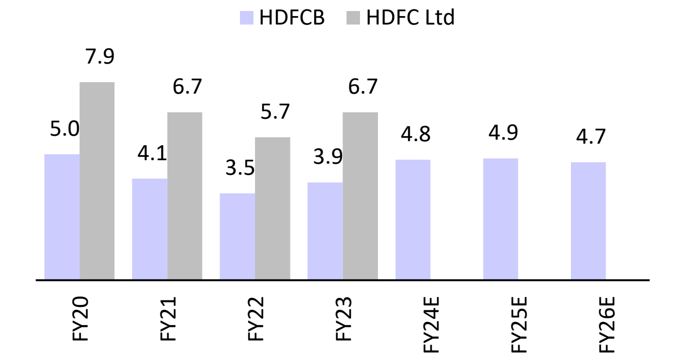
Source: MOFSL, Company

Exhibit 34: Cost of deposits for HDFCB was ~260bp lower vs. HDFC Ltd as on FY23



Source: MOFSL, Company

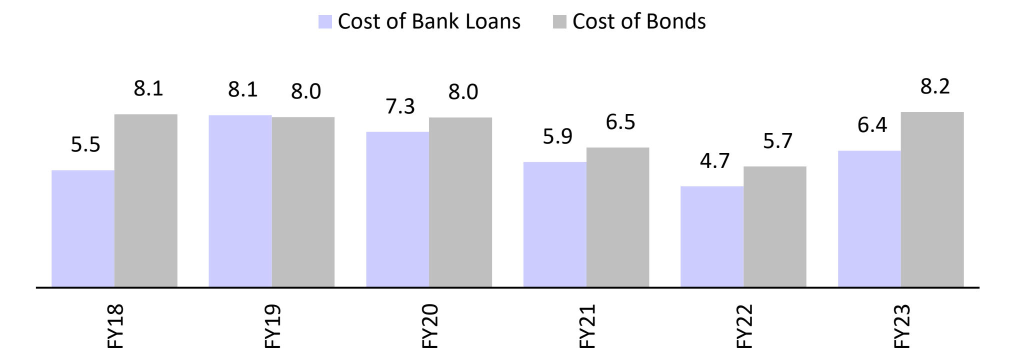
Exhibit 35: Similarly cost of funds for HDFCB too was ~280bp lower vs. HDFC Ltd as on FY23



Source: MOFSL, Company

CoF for HDFCB will rise in FY24E due to HDFC's high cost of funds

Exhibit 36: Cost of term loans for HDFC stands at ~6.4%, while the cost of bonds/other debt securities stands higher at ~8.2%



Source: MOFSL, Company

Retirement of high-cost borrowings with low-cost funding of HDFCB would aid NII over the medium term

Exhibit 37: HDFC: ~46% of the total borrowings and debt liabilities carry an interest rate of 5-8%, while other 14% carry an interest rate of greater than 8%

INR b	<5%	5-8%	> 8%	Total
Debt Securities	378	1,150	460	1,988
Borrowings	980	414	4	1,399
Total	**1,358**	**1,564**	**464**	**3,387**
% of total	**40%**	**46%**	**14%**	**100%**

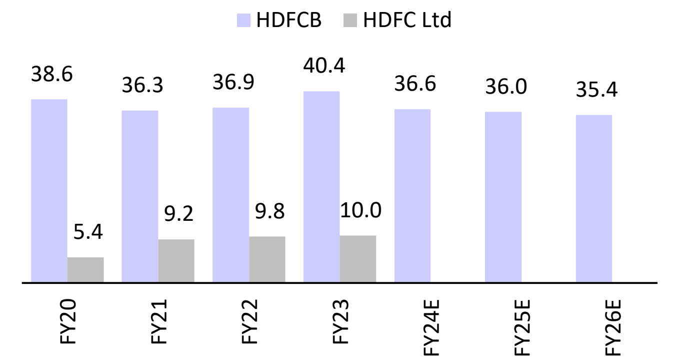
Source: MOFSL, Company

C/I ratio to moderate, compensating for NIM decline

Efficiency ratios to witness a sustained improvement over FY24-26E

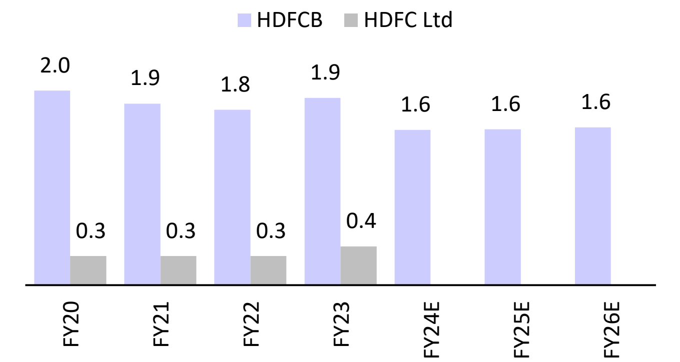
- HDFC operates on a very lean cost model, which has kept the cost ratios lower. In FY23, HDFC's C/I ratio was at ~10% vs. ~40% for HDFCB, while its cost-to-assets ratio was at 0.3-0.4% vs. 1.9% for HDFCB. Our analysis suggests that the C/I ratio for the merged entity is likely to decline to ~37% in FY24 (among the best in the industry), which will boost the bank's ability to invest in branches and product distribution to drive strong growth.
- We believe that while the PSL compliance may keep the cost ratios elevated in the near term, a staggered compliance over three years will limit the overall impact. We thus expect the C/I ratio to witness a gradual moderation and estimate it to be at ~35-37% over FY24-FY26, which would offset the NIM compression, thereby aiding PPoP growth.

Exhibit 38: C/I ratio for HDFC stands at ~10%, much lower than HDFCB; enabling gradual reduction in cost ratios



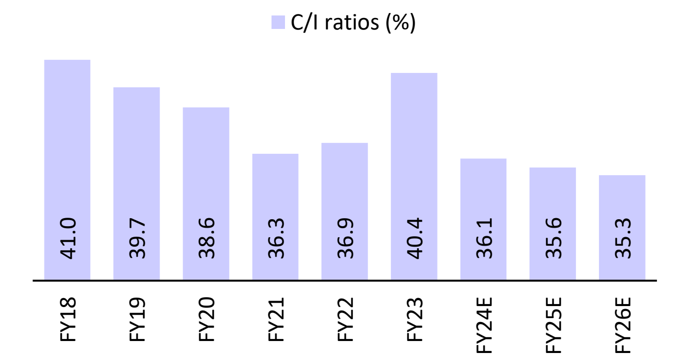
Source: MOFSL, Company

Exhibit 39: Cost to assets for HDFCB stands at ~1.9% vs. 0.4% for HDFC as on FY23



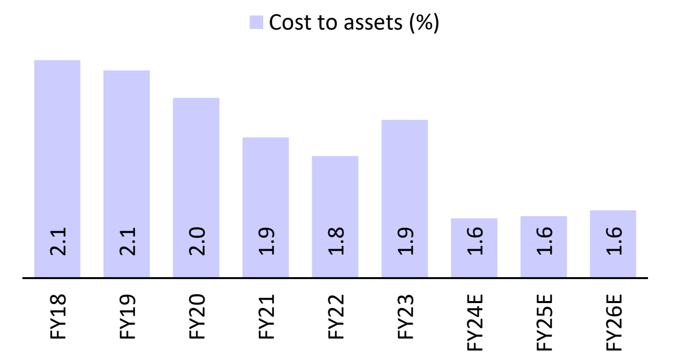
Source: MOFSL, Company

Exhibit 40: Estimate C/I ratio to improve to ~35% by FY26E



Source: MOFSL, Company

Exhibit 41: Cost-assets to moderate to 1.6%



Source: MOFSL, Company

SLR/CRR compliance manageable

Staggered compliance of PSL to limit the P&L impact

- After the merger, the bank's liquidity requirement will increase in order to meet the SLR/CRR requirement of 18%/4.5%. This, coupled with the PSL requirement of 40%, would have a slight drag on the operating performance.
- Our analysis suggests that the incremental requirement for SLR/CRR is likely to be ~INR1t. The bank will have to comply with the CRR/SLR requirements from day 1 of the merger. However, both the bank and HDFC have been increasing the liquidity buffer on their balance sheets and we believe that the bank will be able to broadly meet these requirements without any challenge (Refer Below Exhibit).
- Further, the RBI has allowed calculating ANBC for meeting the PSL requirement, by considering only one-third of the outstanding loans of HDFC as on the effective date of the amalgamation for the first year. The remaining two-thirds of the portfolio of HDFC shall be considered over the next two years.
- We note that ANBC for HDCF stood at ~INR5t as on FY23, which indicates a PSL requirement of INR2t. HDFC is carrying a PSL compliant book of ~INR1.0-1.1t and thus the incremental requirement is likely to be ~INR900b-INR1t, of which 50% has to be housing/core PSL, while 50% has to be toward other segments while CRB book which constitutes 80% of PSL.
- The bank has highlighted in the past that there might be some shortfall in meeting select categories (SMA and Micro), which might entail buying relevant PSLCs or putting money in low-yielding RIDF bonds. We thus believe that while there would be a drag on the P&L, the RBI's dispensation to comply with PSL requirement over next three years will ease the immediate impact and give necessary time to the bank to achieve compliance.

Both HDFC and HDFCB carry excess liquidity, which should help meet SLR/CRR requirements

Exhibit 42: CRR/SLR requirements to be at ~INR1t

INR b	CRR	SLR
NDTL	3,600	4,700
Reserve Requirement	4.5%	18.0%
Reserve to be maintained	**162**	**846**
Total CRR+ SLR Requirement	**1,008**	
G-sec + Other surplus on HDFC Ltd book	635	
Balance to be funded from Bank surplus	373	
-As a % of Bank's NDTL	1.8%	

Source: Company, MOFSL

Staggered compliance of PSL to ease the immediate burden and give bank sufficient time to shore up PSL portfolio

Exhibit 43: Net PSL requirement stands at ~INR900b

PSL Requirement for HDFC Ltd	INR b
ANBC for PSL	5,000
PSL to be required @ 40%	2,000
PSL available with HDFC Ltd	1,100
Net PSL to be generated	**900**
50% through housing/core PSL	450
50% through Agri	450

Source: Company, MOFSL

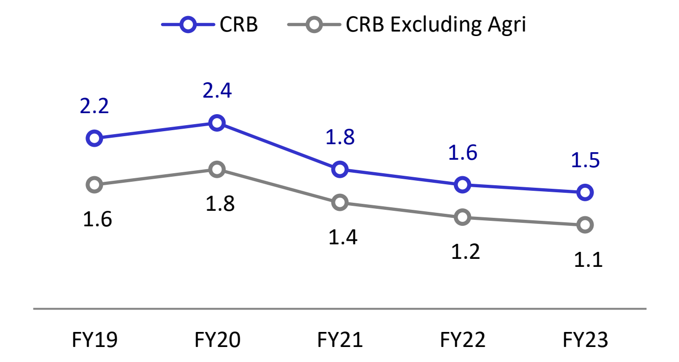
Commercial and Rural Banking portfolio: Growth driver + PSL engine: The CRB portfolio has become a growth driver as well as PSL engine for the bank. The segment has rapidly emerged as one of the fastest-growing portfolios with best-in-class return metrics. Over the past two years, HDFCB has increased its core PSL mix from 30% to 36%. In FY23, the ratio of Core PSL increase to total advances increase stood at 60% vs. 33% in FY21. CRB's PSL to the segment's ANBC stood at 80.3% as of Mar'23, while CRB's incremental PSL to incremental asset growth mix stood at 75.4% in FY23. All segments under CRB made >3% pre-tax ROA and the management expects growth and profitability trends to remain strong. The GNPA ratio in the CRB segment fell to 1.52% in FY23 from 2.17% in FY19. HDFCB expects to double the CRB portfolio over the next three years, supported by robust distribution and increasing branch presence.

Exhibit 44: CRB: Business Metrics - FY23

Business metrics	FY23
Asset Growth	~30%
Pre-tax ROA	>3%
PSL	>80%
Self- Funding	~100%
Gross NPA	~1.5%

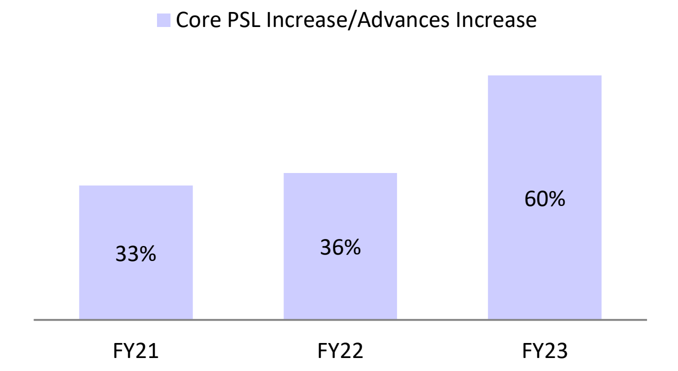
Source: MOFSL, Company

Exhibit 45: CRB book GNPA ratio has improved to 1.5%



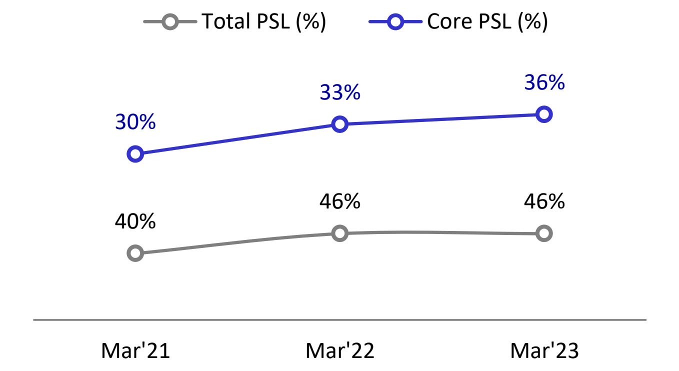
Source: MOFSL, Company

Exhibit 46: Core PSL Increase to advances increase improved to 60% in FY23



Source: MOFSL, Company

Exhibit 47: Total PSL/Core PSL improved to 46%/36% in FY23 from 40%/30% in FY21



Source: MOFSL, Company

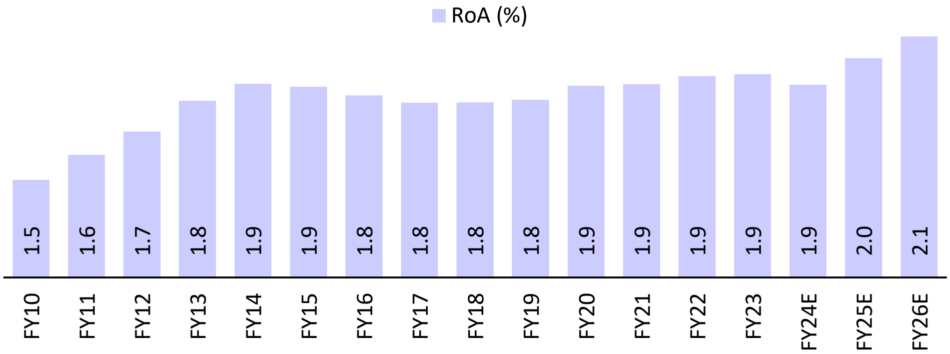
RoE for merged entity to moderate; recoup completely by FY26

Improvement in RWA to enable higher leverage over the medium term

- We estimate the return ratios to moderate initially after the merger, led by a decline in margins while higher capital ratios result in lower leverage and thus further suppresses RoE.
- Opex ratios, though, are likely to improve, which, coupled with controlled credit cost, would support earnings.
- We thus estimate RoE to moderate to 15.3% in FY24 vs. 17% RoE for the standalone bank in FY23.
- The RBI has permitted the bank to ensure compliance of PSL in a staggered manner over a period of three years. This, coupled with the replacement of high-cost borrowings with relatively lower-cost deposits and improvement in operating leverage, will drive a gradual recovery in the overall profitability.
- Further, improvement in RWA will enable higher leverage and drive a recovery in RoE over the medium term. We thus estimate RoE to cross pre-merger levels by FY26E at 17.5% while RoA improves to 2.1%.

RoA is likely to remain healthy at avg. 2.0% over FY24-26E

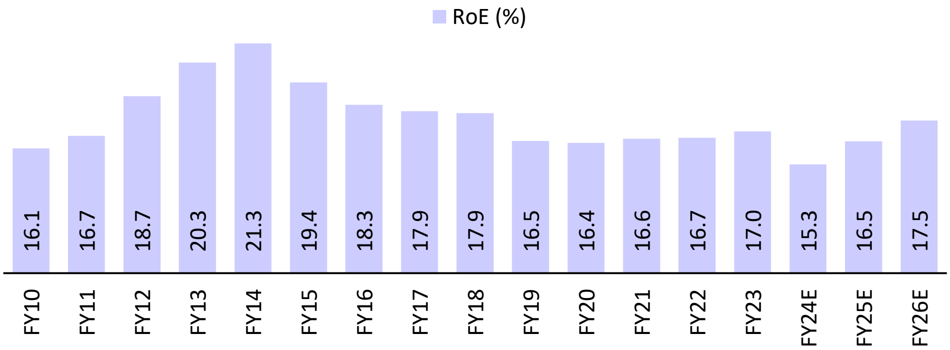
Exhibit 48: RoA profile to improve; estimate 2.1% RoA by FY26E



Source: MOFSL, Company

RoE to moderate on account of lower leverage; to witness a gradual recovery over FY24-26E

Exhibit 49: ROE to moderate to ~15.3% in FY24E and recover gradually to 17.5% by FY26E



Source: MOFSL, Company

Valuation and view: Buy with TP of INR2,070

PAT to grow at 22% CAGR over FY24E-FY26E

- HDFCB and HDFC have merged their operations effective 1 July 2023, with HDFC shareholders receiving 42 shares of HDFCB for every 25 shares of HDFC held by them. After the merger, HDFC's shareholding in HDFCB has extinguished and HDFC shareholders now own 41% in HDFCB.
- The merger will be EPS/BV accretive at the start however slower earnings growth for the merged entity in FY24 over proforma merged numbers for FY23 will largely negate the positive impact.
- The merged entity's advances stand at INR22.45t in 1QFY24 and we estimate it to grow to INR25.5t by 4QFY24, led by sustained momentum in Retail loans. We believe that the synergies of the merger will kick in and aid improved cross-sell of products to customers of both the entities. We thus expect loan growth to stay healthy and estimate a 17% loan CAGR over FY24-26 to reach INR34.7t. We expect deposit traction to remain healthy, with deposits set to replace high-cost borrowings of HDFC, thereby reducing the cost of funds and aiding the margins.
- We expect the near-term profitability to remain under pressure due to a drag from the CRR, SLR and PSL requirements, though the overall impact seems manageable given the relaxation given by the RBI to defer the PSL requirement over a period of three years. Hence, we expect PAT to grow at 22% cagr over FY24E-26E.
- Strong capitalization and liquidity levels should help HDFCB sustain its growth momentum over the next few years. This makes the bank better placed to gain incremental market share.
- GNPA/NNPA ratios are likely to remain steady at ~1.1%-1.2%/0.3%-0.4% over FY24E-FY26E. PCR is likely moderate to ~70% in FY24E vs. ~76% in FY23 for the standalone bank.
- **BUY with a TP of INR2,070**. The merger will enable HDFCB to build a more diversified and robust franchise with sustainable growth. The increased customer base, strong technological edge and robust distribution will improve cross-selling to customers over their life cycle with the bank. The C/I ratio for the merged entity will also decline to ~35% by FY26E and will boost RoA on the structural basis. We estimate a ~22% CAGR in net earnings over FY24-26 while RoA will expand to 2.1%. We estimate RoE to witness a 170bp dip in FY24 and thereafter gradually revert to pre-merger levels of 17%+ by FY26E. HDFCB (Buy) remains one of preferred stocks in the sector with a TP of INR2,070 (premised on 2.8x FY25E ABV + INR211 from subs).

Exhibit 50: SOTP-based pricing for HDFC Bank

	Value INR b	Value USD b	Per Share INR	% of Total Value	Rationale
HDFC Bank	**13,989.5**	**169.6**	**1,859**	**89.8**	**2.8x FY25E ABV**
HDB Financial Services	534.4	6.5	71	3.4	3.5x FY25E Net worth
HDFC Securities	203.4	2.5	27	1.3	18x FY25E PAT
HDFC Life Insurance	766.4	9.3	102	4.9	2.7x FY25E EV
HDFC Ergo General Insurance	127.5	1.5	17	0.8	25x FY25E PAT
HDFC AMC	244.0	3.0	32	1.6	26x FY25E PAT
HDFC Credila	86.8	1.1	12	0.6	3.5x FY25E BV
Bandhan Bank	20.7	0.3	3	0.1	1.6x FY25E BV
Total Value of Subs	**1,983.2**	**24.0**	**264**	**12.7**	
Less: 20% holding Disc	396.6	4.8	53	2.5	
Value of Subs (Post Holding Disc)	**1,586.6**	**19.2**	**211**	**10.2**	
Target Price	**15,576.1**	**188.8**	**2,070**		

Exhibit 51: DuPont Analysis: Return ratios to remain healthy

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	8.57	8.27	7.38	6.70	7.13	7.64	7.82	7.79
Interest Expense	4.40	4.23	3.42	2.92	3.30	4.06	4.13	3.99
Net Interest Income	**4.18**	**4.05**	**3.96**	**3.77**	**3.83**	**3.58**	**3.69**	**3.80**
Core Fee Income	1.34	1.38	1.15	1.22	1.06	0.87	0.88	0.90
Trading and others	0.19	0.30	0.39	0.33	0.31	0.26	0.27	0.27
Non-Interest income	**1.53**	**1.68**	**1.54**	**1.55**	**1.38**	**1.13**	**1.16**	**1.17**
Total Income	**5.71**	**5.73**	**5.50**	**5.32**	**5.21**	**4.70**	**4.85**	**4.97**
Operating Expenses	**2.26**	**2.21**	**2.00**	**1.96**	**2.10**	**1.72**	**1.75**	**1.76**
Employee cost	0.67	0.69	0.63	0.63	0.68	0.55	0.56	0.57
Others	1.59	1.53	1.36	1.33	1.42	1.18	1.19	1.19
Operating Profits	**3.44**	**3.51**	**3.50**	**3.36**	**3.11**	**2.98**	**3.10**	**3.21**
Core operating Profits	**3.26**	**3.22**	**3.11**	**3.03**	**2.79**	**2.73**	**2.83**	**2.94**
Provisions	**0.65**	**0.88**	**0.96**	**0.79**	**0.53**	**0.47**	**0.42**	**0.40**
PBT	**2.79**	**2.64**	**2.54**	**2.57**	**2.58**	**2.51**	**2.68**	**2.81**
Tax	0.96	0.75	0.64	0.63	0.63	0.62	0.66	0.69
RoA	**1.83**	**1.89**	**1.90**	**1.94**	**1.95**	**1.90**	**2.02**	**2.12**
Leverage (x)	9.0	8.7	8.7	8.6	8.7	8.1	8.2	8.3
RoE	**16.5**	**16.4**	**16.6**	**16.7**	**17.0**	**15.3**	**16.5**	**17.5**

Exhibit 52: HDFC Bank: Key monitorables around merger

	3QFY23	4QFY23	1QFY24	FY23	FY24E	FY25E	FY26E	MOSL remarks
LCR								❖ LCR ratio stands comfortable at 120% for the merged entity.
Standalone	113%	116%	126%					
Merged Entity			120%					
NIM								❖ We expect NIMs to decline to 3.7-3.8% during 2QFY24 when bank starts reporting merged entity numbers. Thereafter we expect NIMs to improve to 4% by FY26E.
Standalone	4.1%	4.1%	4.1%	4.1%				
Merged Entity					3.8%	3.9%	4.0%	
Deposits (INR b)								❖ We estimate merged entity deposits to grow at a ~18% CAGR over FY24-FY26
Standalone	17,332	18,834	19,131	18,834				
Merged Entity			20,651		23,839	28,130	33,025	
ROA								❖ We estimate FY24E RoA to sustain at 1.9% and gradually improve thereafter to 2.1% by FY26E. This will be aided by improvement in margins and cost-income ratios.
Standalone	2.2%	2.1%	2.1%	1.9%				
Merged Entity					1.9%	2.0%	2.1%	
ROE								❖ We thus estimate RoE to recover back to pre-merge levels by FY26E after seeing a 150bp drop in FY24E.
Standalone	19.7%	18.5%	17.3%	17.0%				
Merged Entity					15.5%	16.6%	17.4%	
CRR/ SLR Requirement								❖ As shown, we estimate tiny CRR/SLR requirement which can be easily met from surplus funds/investments that bank is carrying. LCR for merged entity is also higher at 120% which will enable the bank to maintain overall compliance here.
CRR requirement,	**INR b**							
NDTL	3,600							
Reserve Requirement	4.50%							
CRR reserve requirement	**162.0**							
SLR requirement, INR b	**SLR**							
NDTL	4,700							
Reserve Requirement	18.0%							
SLR requirement	**846.0**							
Total CRR + SLR requirement, INR b	**1,008**							
G-Sec + Other surplus on HDFC Ltd. books	635							
Balance to be funded from Bank surplus	373							
- As % of Bank's NDTL	1.8%							
PSL Requirement for HDFC Ltd	**INR b**							❖ As per our calculations, HDFC Bank would need to generate additional INR900b of PSL to comply with PSL requirement. However, RBI has given the relaxation to comply with this requirement over a staggered period of 3 years. ❖ Bank expect to source 50% of this requirement through housing and the rest through the CRB book which has been growing rapidly and has become a PSL engine for the bank.
ANBC for PSL	5,000							
PSL to be required @ 40%	2,000							
PSL available with HDFC Ltd	1,100							
Net PSL to be generated	**900**							
50% through Housing, Core PSL	450							
50% through Agri, SMF, Micro etc.	450							
CRB- PSL Data	**FY21**	**FY22**	**FY23**					
CRB loan book (INR b)	3,205	4,202	5,474					
Total PSL (%) - Bank	40%	46%	46%					
Core PSL (%) - Bank	30%	33%	36%					
Core PSL Increase/ Advance % increase	33%	36%	60%					
CRB's PSL to ANBC			80%					
CRB's PSL contribution to incremental asset growth			75%					
CRB GNPA Data (%)	**FY20**	**FY21**	**FY22**	**FY23**				
CRB	2.4	1.8	1.6	1.5				
CRB Excluding Agri	1.8	1.4	1.2	1.1				

Exhibit 53: Pro-forma merged financials for HDFCB and HDFC; RoE to moderate ~200bp, Margins to moderate by 30bp in FY24

FY23 (INR b)	HDFCB	HDFC Ltd	FY23 Merged	FY24E	FY25E	FY26E
Profit & Loss						
Net Interest Income	**868**	**192**	**1,061**	**1,221**	**1,446**	**1,727**
Non-Interest Income	312	50	362	384	453	530
Total Income	**1,181**	**242**	**1,423**	**1,605**	**1,899**	**2,257**
Operating Expenses	477	24	501	587	684	798
Pre Provision Profits	**704**	**218**	**922**	**1,017**	**1,215**	**1,459**
Provisions	119	18	137	160	166	181
PBT	**585**	**200**	**785**	**858**	**1,049**	**1,278**
Tax	144	38	182	211	258	314
PAT	**441**	**162**	**603**	**647**	**791**	**963**
Balance Sheet						
Net-worth	2,802	1,298	4,100	4,486	5,112	5,894
Deposits	18,834	1,521	20,355	23,934	28,481	33,750
Borrowings	2,068	4,161	6,229	6,485	6,857	7,379
CASA Deposits	8,360	-	8,360	8,951	10,851	13,365
Loans	16,006	6,084	22,089	25,451	29,650	34,691
Total Assets	**24,661**	**7,268**	**31,929**	**36,284**	**42,021**	**48,816**
Asset Quality						
GNPA	180	90	270	299	323	370
NNPA	44	42	86	89	88	99
GNPA ratio	1.1	1.4	1.2	1.2	1.1	1.1
NNPA ratio	0.3	0.7	0.4	0.4	0.3	0.3
PCR	75.8	53.2	68.3	70.2	72.9	73.3
Key Ratios						
NIM	4.1	3.6	3.7	3.8	3.9	4.0
CASA Ratio	44.4	-	41.1	37.4	38.1	39.6
Cost/Total Income	40.4	10.0	35.2	36.6	36.0	35.4
RoE	17.0	13.2	14.7	15.3	16.5	17.5
RoA	1.9	2.3	1.9	1.9	2.0	2.1
Others						
Branches	7,821	523	8,344			
Employees	173,222	4,017	177,239			

Financials and valuations

Income Statement (INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	989.7	1,148.1	1,208.6	1,277.5	1,615.9	2,604.1	3,061.7	3,538.7
Interest Expense	507.3	586.3	559.8	557.4	747.4	1,383.3	1,615.6	1,811.8
Net Interest Income	**482.4**	**561.9**	**648.8**	**720.1**	**868.4**	**1,220.8**	**1,446.1**	**1,726.9**
Growth (%)	20.3	16.5	15.5	11.0	20.6	40.6	18.5	19.4
Non-Interest Income	176.3	232.6	252.0	295.1	312.1	383.9	453.1	530.1
Total Income	**658.7**	**794.5**	**900.8**	**1,015.2**	**1,180.6**	**1,604.7**	**1,899.2**	**2,257.0**
Growth (%)	19.1	20.6	13.4	12.7	16.3	35.9	18.4	18.8
Operating Expenses	261.2	307.0	327.2	374.4	476.5	587.2	684.0	798.0
Pre Provision Profits	**397.5**	**487.5**	**573.6**	**640.8**	**704.0**	**1,017.5**	**1,215.2**	**1,458.9**
Growth (%)	21.8	22.6	17.7	11.7	9.9	44.5	19.4	20.1
Core PPP	**380.3**	**465.9**	**549.2**	**601.7**	**659.2**	**958.5**	**1,140.0**	**1,370.3**
Growth (%)	22.3	22.5	17.9	9.6	9.6	45.4	18.9	20.2
Provisions (exc. tax)	75.5	121.4	157.0	150.6	119.2	159.8	166.1	181.4
PBT	**322.0**	**366.1**	**416.6**	**490.2**	**584.9**	**857.6**	**1,049.1**	**1,277.5**
Tax	111.2	103.5	105.4	120.5	143.8	211.0	258.1	314.3
Tax Rate (%)	34.5	28.3	25.3	24.6	24.6	24.6	24.6	24.6
PAT	**210.8**	**262.6**	**311.2**	**369.6**	**441.1**	**646.7**	**791.0**	**963.3**
Growth (%)	20.5	24.6	18.5	18.8	19.3	46.6	22.3	21.8

Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	5.4	5.5	5.5	5.5	5.6	7.5	7.5	7.5
Reserves & Surplus	1,486.6	1,704.4	2,031.7	2,395.4	2,796.4	4,478.7	5,104.2	5,886.9
Net Worth	**1,492.1**	**1,709.9**	**2,037.2**	**2,400.9**	**2,802.0**	**4,486.3**	**5,111.7**	**5,894.4**
Deposits	9,231.4	11,475.0	13,350.6	15,592.2	18,833.9	23,933.5	28,480.9	33,749.8
Growth (%)	17.0	24.3	16.3	16.8	20.8	27.1	19.0	18.5
of which CASA Deposits	3,912.0	4,846.3	6,156.8	7,510.5	8,359.9	8,951.1	10,851.2	13,364.9
Growth (%)	14.0	23.9	27.0	22.0	11.3	7.1	21.2	23.2
Borrowings	1,170.9	1,446.3	1,354.9	1,848.2	2,067.7	6,485.3	6,856.6	7,379.2
Other Liabilities & Prov.	551.1	673.9	726.0	844.1	957.2	1,379.1	1,572.2	1,792.3
Total Liabilities	**12,445.4**	**15,305.1**	**17,468.7**	**20,685.4**	**24,660.8**	**36,284.2**	**42,021.4**	**48,815.7**
Current Assets	813.5	866.2	1,194.7	1,523.3	1,937.7	2,019.8	2,190.9	2,447.2
Investments	2,931.2	3,918.3	4,437.3	4,555.4	5,170.0	7,336.3	8,583.5	9,956.8
Growth (%)	21.0	33.7	13.2	2.7	13.5	41.9	17.0	16.0
Loans	8,194.0	9,937.0	11,328.4	13,688.2	16,005.9	25,450.7	29,650.1	34,690.6
Growth (%)	24.5	21.3	14.0	20.8	16.9	59.0	16.5	17.0
Fixed Assets	40.3	44.3	49.1	60.8	80.2	140.7	156.5	189.3
Other Assets	466.5	539.3	459.3	857.7	1,467.1	1,336.7	1,440.4	1,531.7
Total Assets	**12,445.4**	**15,305.1**	**17,468.7**	**20,685.4**	**24,660.8**	**36,284.2**	**42,021.4**	**48,815.7**

Asset Quality

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA	112.2	126.5	150.9	161.4	180.2	299.3	323.5	369.5
NNPA	32.1	35.4	45.5	44.1	43.7	89.1	87.5	98.7
GNPA Ratio	1.4	1.3	1.3	1.2	1.1	1.2	1.1	1.1
NNPA Ratio	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.3
Slippage Ratio	1.9	1.9	1.5	2.1	1.7	1.6	1.5	1.4
Credit Cost	0.9	1.3	1.5	1.2	0.8	0.6	0.5	0.5
PCR (Exc. Tech. write off)	71.4	72.0	69.8	72.7	75.8	70.2	72.9	73.3

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**9.6**	**9.0**	**8.1**	**7.4**	**8.0**	**8.3**	**8.5**	**8.4**
Avg. Yield on loans	10.5	10.1	8.9	7.9	8.6	8.9	9.0	8.9
Avg. Yield on Inv.	7.6	6.1	5.6	5.8	6.5	6.8	6.9	6.9
Avg. Cost-Int. Bear. Liabilities	**5.2**	**5.0**	**4.1**	**3.5**	**3.9**	**4.9**	**4.9**	**4.7**
Avg. Cost of Deposits	4.8	4.9	4.0	3.4	3.9	4.4	4.6	4.4
Interest Spread	**4.4**	**4.0**	**4.0**	**3.9**	**4.1**	**3.5**	**3.6**	**3.7**
Net Interest Margin	**4.4**	**4.2**	**4.1**	**3.9**	**4.1**	**3.8**	**3.9**	**4.0**
Capitalisation Ratios (%)								
CAR	17.1	18.3	18.5	18.7	19.3	19.6	19.1	18.6
Tier I	15.8	17.0	17.3	17.7	17.1	18.1	17.8	17.5
Tier II	1.3	1.2	1.2	1.0	2.2	1.5	1.3	1.1
Business and Efficiency Ratios (%)								
Loans/Deposit	88.8	86.6	84.9	87.8	85.0	106.3	104.1	102.8
CASA Ratio	42.4	42.2	46.1	48.2	44.4	37.4	38.1	39.6
Cost/Assets	2.1	2.0	1.9	1.8	1.9	1.6	1.6	1.6
Cost/Total Income	39.7	38.6	36.3	36.9	40.4	36.6	36.0	35.4
Cost/Core Income	40.7	39.7	37.3	38.4	42.0	38.0	37.5	36.8
Int. Expense/Int. Income	51.3	51.1	46.3	43.6	46.3	53.1	52.8	51.2
Fee Income/Total Income	23.5	24.1	20.9	22.9	20.4	18.5	18.2	18.0
Non Int. Inc./Total Income	26.8	29.3	28.0	29.1	26.4	23.9	23.9	23.5
Emp. Cost/Total Expense	29.7	31.0	31.7	32.1	32.6	31.7	32.1	32.2
Investment/Deposit	31.8	34.1	33.2	29.2	27.5	30.7	30.1	29.5
Valuation								
RoE	16.5	16.4	16.6	16.7	17.0	15.3	16.5	17.5
RoA	1.83	1.89	1.90	1.94	1.9	1.9	2.0	2.1
RoRWA	2.4	2.6	2.8	2.8	2.9	2.9	3.0	3.1
Book Value (INR)	274	312	370	433	502	596	679	783
Growth (%)	33.8	13.8	18.5	17.2	16.0	18.7	13.9	15.3
Price-BV (x)	**6.1**	**5.4**	**4.5**	**3.9**	**3.3**	**2.8**	**2.5**	**2.1**
Adjusted BV (INR)	263	300	357	420	489	580	662	763
Price-ABV (x)	**5.6**	**4.9**	**4.1**	**3.5**	**3.0**	**2.5**	**2.2**	**1.9**
EPS (INR)	39.6	48.0	56.6	66.8	79.3	85.9	105.1	128.0
Growth (%)	16.9	21.2	17.8	18.1	18.6	8.4	22.3	21.8
Price-Earnings (x)	**42.2**	**34.8**	**29.6**	**25.0**	**21.1**	**19.5**	**15.9**	**13.1**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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