

## FIRST LIGHT

17 January 2023

### RESEARCH

#### BOB ECONOMICS RESEARCH | WPI

WPI at 22-month low

#### HDFC Bank | TARGET: Rs 2,000 | +26% | BUY

Steady earnings growth

### SUMMARY

#### INDIA ECONOMICS: WPI

WPI inflation slipped down to 5% in Dec'22 from 5.8% in Nov'22. This was led by moderation in food (0.7% from 2.2%) and manufactured product inflation (3.4% from 3.6%). However, fuel inflation inched up (18.1% from 17.4% in Nov'22). Within food, prices of fruits and vegetables, especially tomato pulled down the prices. However, there is an uptick in cereal inflation. Improvement in rabi sowing bodes well for wheat prices. Core WPI softened to 2-year low of 3.2% in Dec'22 from 3.5% in Nov'22 owing to the dip in manufactured inflation. Going ahead, we expect further easing in WPI inflation on account of base effect in H1FY24.

[Click here for the full report.](#)

#### HDFC BANK

- Q3 PAT grew 19% YoY (16% QoQ) to Rs 122.6bn aided by strong interest & other income and lower provisions
- Higher upgrades and recoveries led to reduced provisioning; GNPA/ NNPA were flat at 1.23%/0.33% with PCR of 73.2%
- We assume coverage with BUY and an SOTP-based TP of Rs 2,000

[Click here for the full report.](#)

#### Daily macro indicators

Indicator	12-Jan	13-Jan	Chg (%)
US 10Y yield (%)	3.44	3.50	6bps
India 10Y yield (%)	7.29	7.30	1bps
USD/INR	81.55	81.34	0.3
Brent Crude (US\$/bbl)	84.0	85.3	1.5
Dow	34,190	34,303	0.3
Hang Seng	21,514	21,739	1.0
Sensex	59,958	60,261	0.5
India FII (US\$ mn)	11-Jan	12-Jan	Chg (\$ mn)
FII-D	(7.1)	(20.5)	(13.4)
FII-E	(416.8)	(164.8)	252.0

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

research@bobcaps.in



## WPI

16 January 2023

## WPI at 22-month low

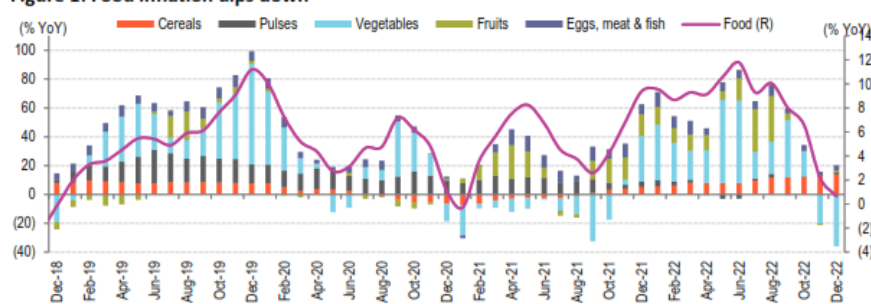
**Jahnavi**  
 Economist

WPI inflation slipped down to 5% in Dec'22 from 5.8% in Nov'22. This was led by moderation in food (0.7% from 2.2%) and manufactured product inflation (3.4% from 3.6%). However, fuel inflation inched up (18.1% from 17.4% in Nov'22). Within food, prices of fruits and vegetables, especially tomato pulled down the prices. However, there is an uptick in cereal inflation. Improvement in rabi sowing bodes well for wheat prices. Core WPI softened to 2-year low of 3.2% in Dec'22 from 3.5% in Nov'22 owing to the dip in manufactured inflation. Going ahead, we expect further easing in WPI inflation on account of base effect in H1FY24.

## Food inflation moderates:

Headline WPI eases to almost 2-year low of 5% (BoB est.: 5.6%) in Dec'22 from 5.8% in Nov'22. Food inflation in Dec'22 edged lower (0.7% from 2.2% in Nov'22) on the back of contraction in fruits and vegetable inflation (-23.6% against 13.8% in Nov'22). Vegetable prices declined for the second straight month by (-) 36% compared with (-) 20.1% in Nov'22. Tomato prices plummeted down to 4-year low of (-) 65% in Dec'22 (-52.5% in Nov'22) as supply expanded. Onion prices too followed suit and declined further by (-) 26% from (-) 19.2% in Nov'22. However, potato prices reversed its previous month losses and edged up by 22.4% in Dec'22 (13.8% in Nov'22). Apart from eggs, other protein based items such as milk (7% from 6% in Nov'22) registered higher prices in Dec'22. Nonetheless, even egg prices are expected to inch up in coming months on the back of cold wave and much higher demand. Cereal inflation has edged up to 9-year high of 14% (12.8% in Nov'22) led by higher wheat (20.7% from 18.1% in Nov'22) and paddy (6.8% from 6.4%) prices. Pulses inflation has also inched up to 1.5% (0.6% in Nov'22).

Figure 1: Food inflation dips down



## Fuel and power inch up:

Fuel and power inflation in Dec'22 moved up to 18.1% from 17.4% in Nov'22, owing to sharp increase in electricity index to 16.6% from 9.5% in Nov'22. However, coal and mineral oil prices moderated down to 2.6% (3% in Nov'22) and 22.7% (23.8% in Nov'22) respectively in Dec'22. The dip in mineral oil index is in line with the trend seen in international oil prices, which has moderated down to 8.7% (YoY) in Dec'22.



**BUY****TP: Rs 2,000 | ▲ 26%****HDFC BANK**

| Banking

| 16 January 2023

## Steady earnings growth

- **Q3 PAT grew 19% YoY (16% QoQ) to Rs 122.6bn aided by strong interest & other income and lower provisions**
- **Higher upgrades and recoveries led to reduced provisioning; GNPA/NNPA were flat at 1.23%/0.33% with PCR of 73.2%**
- **We assume coverage with BUY and an SOTP-based TP of Rs 2,000**

**Ajit Agrawal**

research@bobcaps.in

**Robust loan growth:** During Q3FY23, HDFCB's loans grew 19.5% YoY aided by strong CRB business while retail loans increased 20%. Deposits grew 20% YoY wherein low-cost CASA posted one of the slowest growth rates (12% YoY) in eight quarters – a systemic problem due to slower deposit repricing. Credit/deposit ratio stood at 88%.

**Healthy NIM:** NII grew 25% YoY and 9% QoQ to Rs 229.8bn supported by strong core interest income. NIM (calc.) increased by 22bps QoQ to 4.3% (an income tax refund contributed 5-6bps). Management indicated that the long-term NIM trend would be a function of portfolio mix and any incremental margins would be largely a function of the retail mix. Other income at Rs 85bn grew 12% QoQ (+4% YoY) due to treasury gains of Rs 2.6bn.

**PPoP healthy despite higher opex:** HDFCB's cost/income ratio remained elevated with continued investment in branches and employees (added 684/841 branches in Q3/9MFY23 with 600 more in the pipeline). We believe, the bank's aggressive expansion strategy will keep C/I elevated. However, core PPoP rose by a healthy 19% YoY vs. 11.7% in the year-ago quarter and 16.6% in Q2FY23.

**Higher upgrades and recoveries keep asset quality stable:** Despite an increase in slippages, GNPA/NNPA were stable at 1.23%/0.33% owing to higher upgrades and recoveries. The bank's restructured book stood at 42bps of loans, but overall provisioning at 166% of GNPA provides an additional cushion. Credit cost improved to 76bps (vs. 93bps/100bps in Q2FY23/Q3FY22).

**BUY, TP Rs 2,000:** We expect HDFCB to post a credit CAGR of +20% and PPoP CAGR of +18% over FY22-FY25 supported by healthy business dynamics. Credit quality is likely to remain stable at current levels (GNPA/NNPA 1.2%/0.37%) with ample provisioning (70%). We bake in a 19.5% PAT CAGR with ROA/ROE of 2%/17.3% in FY25. Given our strong growth outlook for the bank, we assume coverage with BUY and a TP of Rs 2,000, set at 3.3x FY24E ABV while we value the subsidiaries at Rs 50/sh.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,585
Market cap	US\$ 108.3bn
Free float	74%
3M ADV	US\$ 122.2mn
52wk high/low	Rs 1,722/Rs 1,272
Promoter/FPI/DII	21%/45%/34%

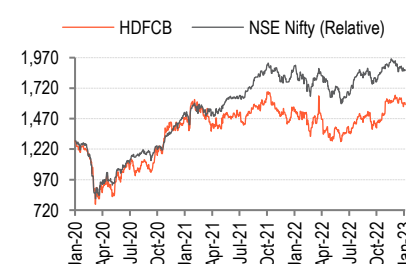
Source: NSE | Price as of 16 Jan 2023

## Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income	7,20,096	8,62,543	10,22,150
NII growth (%)	11.0	19.8	18.5
Adj. net profit (Rs mn)	3,69,614	4,41,527	5,11,995
EPS (Rs)	66.8	79.4	91.8
Consensus EPS (Rs)	66.8	78.6	89.8
P/E (x)	23.7	20.0	17.3
P/BV (x)	3.7	2.9	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	16.7	16.3	15.9

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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