

**BUY****TP: Rs 2,061 | ▲ 23%****HDFC BANK**

| Banking

| 19 July 2023

## Strong PAT on lower provisions

- **Q1 PAT grew 30% YoY backed by a strong topline and lower provisions. Deposits outpaced loan growth at 19% YoY**
- **NIM dipped 13bps QoQ to 4.1% on a higher cost of funds, whereas credit cost stayed flat at 71bps with stable asset quality**
- **Maintain BUY with a revised TP of Rs 2,061 for the merged entity (vs. Rs 1,956 pre-merger)**

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**NIM contracts QoQ:** HDFCB's focus on deposit mobilisation coupled with rate repricing kept cost of funds elevated. Thus, Q1FY24 NII grew just 1% QoQ (but jumped 21% YoY) and NIM contracted 13bps QoQ to 4.1%. Even so, management retained FY24 margin guidance at 3.9-4.1% citing an ongoing structural change in portfolio mix in favour of retail (now at 47% of advances vs. 46% in Q1FY23). Strong fee income and treasury gains of Rs 5.5bn supported net income growth of 27% YoY (+2% QoQ).

**Deposits outpace loan growth:** HDFCB's deposits pre-merger with HDFC grew 19% YoY vs. 16% loan growth. Term deposits rose 26% YoY (+5% QoQ) vs. CASA growth of 11% (-3% QoQ), leading to a 330bps drop (-190bps QoQ) in CASA ratio to 42.5%. Post-merger deposits grew 16% YoY (+1% QoQ) with a 39% CASA ratio.

**Merged loan book up 18% YoY:** The bank's high-yield retail (18% YoY) and CRB business (+29% YoY) did well, wherein home and personal loans led the way in retail, and vehicle (+38% YoY) and business banking drove CRB. Provisional merged loans grew only 13% YoY, impacted by run-off in the housing finance arm's wholesale book. Ex-IBPC transactions, the merged core book was up 18% YoY and management is confident of 17-18% YoY credit growth in FY24/FY25.

**Cost elevated; stable asset quality aids PAT:** Opex increased 34% YoY (+4% QoQ) led by employee cost, restricting PPOP growth to 22% YoY (+0.8% QoQ). Despite higher slippages (145bps annualised vs. 130bps in Q4FY23), GNPA/NNPA were stable at 1.17%/0.3%. Credit cost at 71bps was steady QoQ with cumulative provisioning at 171% of GNPA vs. 176% last quarter. The restructured book inched down to 27bps of loans (vs. 37bps in Q4). PAT grew 30% YoY on a strong topline and lower provisions.

**Maintain BUY:** Post-merger with HDFC, we now bake in a higher combined credit and PAT CAGR of ~37% each for the bank over FY23-FY25. We do not anticipate major asset quality concerns and model for stable GNPA and NNPA with manageable credit cost. Given the healthy growth outlook, we retain BUY on HDFCB with a revised TP of Rs 2,061 (vs. Rs 1,956), set at 2.8x FY25E ABV for the merged entity (vs. 3.1x pre-merger) plus Rs 178/sh for subsidiaries (vs. Rs 56/sh).

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,678
Market cap	US\$ 153.9bn
Free float	74%
3M ADV	US\$ 350.7mn
52wk high/low	Rs 1,758/Rs 1,337
Promoter/FPI/DII	26%/33%/27%

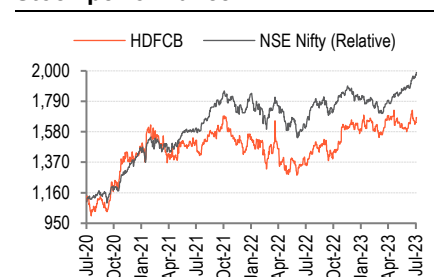
Source: NSE | Price as of 18 Jul 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	868,422	1,018,026	1,185,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	441,087	499,503	575,553
EPS (Rs)	79.3	89.5	103.2
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.2	18.7	16.3
P/BV (x)	3.3	2.9	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.7	16.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



**Fig 1 – Proforma loan book pre-and post-merger of HDFC Bank and HDFC Ltd (merger effective from 1 Jul 2023)**

Loans (Rs bn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
<b>HDFCB's Loans</b>					
Retail	6,578	5,579	6,346	17.9	3.7
CRB	6,428	4,981	6,292	29.1	2.2
Wholesale	4,046	3,640	4,097	11.2	(1.2)
<b>Subtotal (HDFCB Pre-merger)</b>	<b>17,052</b>	<b>14,200</b>	<b>16,735</b>	<b>20.1</b>	<b>1.9</b>
HDFC's Individual Loans	5,054	4,427	4,945	14.2	2.2
<b>Subtotal (Core)</b>	<b>22,106</b>	<b>18,627</b>	<b>21,680</b>	<b>18.7</b>	<b>2.0</b>
HDFC's Non-individual Loans	1,097	1,343	1,215	(18.3)	(9.7)
<b>Subtotal</b>	<b>23,203</b>	<b>19,970</b>	<b>22,895</b>	<b>16.2</b>	<b>1.3</b>
IBPC/BRDS	(753)	(117)	(592)	-	-
<b>Proforma Merged Gross Advances</b>	<b>22,450</b>	<b>19,853</b>	<b>22,303</b>	<b>13.1</b>	<b>0.7</b>

Source: BOBCAPS Research, Company | Note: Merged balance sheet would be available from Q2FY24

**Fig 2 – Proforma deposit book (pre- and post-merger)**

Deposits (Rs bn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
<b>HDFCB's Deposits Pre-merger</b>	<b>19,131</b>	<b>16,048</b>	<b>18,834</b>	<b>19.2</b>	<b>1.6</b>
HDFC's Retail Deposits	1,124	1,021	1,112	10.1	1.1
<b>Subtotal</b>	<b>20,255</b>	<b>17,069</b>	<b>19,946</b>	<b>18.7</b>	<b>1.5</b>
HDFC's Non-retail Deposits	397	691	415	(42.5)	(4.3)
<b>Proforma Merged Deposits</b>	<b>20,652</b>	<b>17,760</b>	<b>20,361</b>	<b>16.3</b>	<b>1.4</b>

Source: Company, BOBCAPS Research | Note: Merged balance sheet would be available from Q2FY24

**Fig 3 – Quarterly snapshot: Income Statement**

(Rs mn)	Q1FY24	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	380,080	274,023	304,094	336,414	356,428	38.7	6.6
Income on investments	89,112	71,936	77,019	80,392	83,764	23.9	6.4
Int. on bal. with RBI & inter-bank funds & Others	16,676	5,762	4,751	10,271	11,001	189.4	51.6
<b>Interest income</b>	<b>485,868</b>	<b>351,720</b>	<b>385,864</b>	<b>427,078</b>	<b>451,194</b>	<b>38.1</b>	<b>7.7</b>
Interest expense	249,877	156,906	175,652	197,199	217,675	59.3	14.8
<b>Net interest income</b>	<b>235,991</b>	<b>194,814</b>	<b>210,212</b>	<b>229,878</b>	<b>233,518</b>	<b>21.1</b>	<b>1.1</b>
Growth YoY (%)	21.1	14.5	18.9	24.6	23.7	660bps	(260bps)
<b>Non-interest income</b>	<b>92,299</b>	<b>63,882</b>	<b>75,956</b>	<b>84,998</b>	<b>87,312</b>	<b>44.5</b>	<b>5.7</b>
Growth YoY (%)	44.5	1.6	2.6	3.9	14.3	4290bps	3016bps
<b>Total income</b>	<b>328,289</b>	<b>258,697</b>	<b>286,167</b>	<b>314,877</b>	<b>320,830</b>	<b>26.9</b>	<b>2.3</b>
Growth YoY (%)	26.9	11.0	14.1	18.3	21.0	1586bps	588bps
Staff expenses	47,821	35,002	35,238	41,262	43,621	36.6	9.6
Other operating expenses	92,748	70,016	77,007	83,374	91,001	32.5	1.9
<b>Operating expenses</b>	<b>140,569</b>	<b>105,018</b>	<b>112,246</b>	<b>124,636</b>	<b>134,621</b>	<b>33.9</b>	<b>4.4</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>187,720</b>	<b>153,678</b>	<b>173,922</b>	<b>190,241</b>	<b>186,209</b>	<b>22.2</b>	<b>0.8</b>
Growth YoY (%)	22.2	1.5	10.0	13.4	13.8	2063bps	831bps
<b>Provisions</b>	<b>28,600</b>	<b>31,877</b>	<b>32,401</b>	<b>28,064</b>	<b>26,854</b>	<b>(10.3)</b>	<b>6.5</b>
Growth YoY (%)	(10.3)	(34.0)	(17.4)	(6.3)	(18.9)	2373bps	865bps
PBT	159,120	121,801	141,520	162,176	159,355	30.6	(0.1)
<b>PAT</b>	<b>119,518</b>	<b>91,960</b>	<b>106,058</b>	<b>122,595</b>	<b>120,475</b>	<b>30.0</b>	<b>(0.8)</b>
Growth YoY (%)	30.0	19.0	20.1	18.5	19.8	1100bps	1015bps
<b>Per Share</b>							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	21	17	19	22	22	29.1	(0.9)
Book Value (Rs)	526	452	457	481	503	16.6	4.6

Source: Company, BOBCAPS Research

**Fig 4 – Quarterly snapshot: Balance Sheet & Others**

Balance sheet (Rs mn)	Q1FY24	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Deposits	19,130,958	16,047,600	16,734,080	17,332,040	18,833,947	19.2	1.6
Growth YoY (%)	19.2	19.2	19.0	19.9	20.8	(3bps)	(158bps)
Advances	16,156,720	13,950,677	14,798,732	15,068,093	16,005,859	15.8	0.9
Growth YoY (%)	15.8	21.6	23.4	19.5	16.9	(575bps)	(112bps)
Investment	5,657,776	4,961,567	5,191,159	5,272,767	5,170,014	14.0	9.4
Equity	2,943,738	2,508,404	2,546,684	2,681,001	2,807,570	17.4	4.9
Assets	25,016,930	21,097,715	22,278,934	22,953,053	24,660,815	18.6	1.4
Growth YoY (%)	18.6	20.3	20.8	18.4	19.2	(171bps)	(64bps)
<b>Yield (%)</b>							
Yield on Funds	8.35	7.07	7.52	8.03	8.08	129bps	27bps
Cost of Funds	4.75	3.56	3.84	4.13	4.32	118bps	43bps
Spread	3.61	3.50	3.68	3.91	3.77	10bps	(16bps)
Net Interest Margin	4.06	3.91	4.10	4.32	4.18	14bps	(13bps)
<b>Ratios (%)</b>							
Other Income / Net Income	28.1	24.7	26.5	27.0	27.2	342bps	90bps
Cost to Income ratio	42.8	40.6	39.2	39.6	42.0	222bps	86bps
CASA ratio	42.5	45.8	45.4	44.0	44.4	(329bps)	(189bps)
C/D ratio	84.5	86.9	88.4	86.9	85.0	(248bps)	(53bps)
Investment to Assets	22.6	23.5	23.3	23.0	21.0	(90bps)	165bps
<b>Assets Quality</b>							
GNPA	190,641	180,337	183,010	187,639	180,190	5.7	5.80
NNPA	47,769	48,877	48,827	50,243	43,684	(2.3)	9.3
Provision	142,873	131,459	134,183	137,396	136,506	8.7	4.7
GNPA (%)	1.17	1.28	1.23	1.23	1.12	(11bps)	5bps
NNPA (%)	0.30	0.35	0.33	0.33	0.27	(5bps)	3bps
Provision (%)	74.9	72.9	73.3	73.2	75.8	205bps	(81bps)
<b>Others (Nos.)</b>							
Branches	7,860	6,378	6,499	7,183	7,821	1,482	39
ATMs	20,352	18,620	18,868	19,007	19,727	1,732	625
Employees	181,725	152,511	161,027	166,890	173,222	29,214	8,503

Source: Company, BOBCAPS Research

**Fig 5 – Segmental loan book distribution**

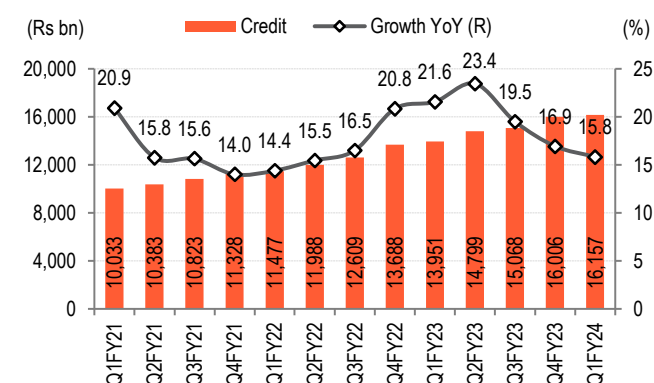
(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	Mix (%)
<b>Retail Loans</b>												
Home Loans	722,350	757,540	789,920	830,560	882,490	930,500	975,930	1,020,670	1,084,730	22.9	6.3	6.4
Loan Against Property	516,960	544,260	577,360	622,480	651,160	693,130	724,360	767,730	788,690	21.1	2.7	4.6
Auto Loans	919,100	951,950	964,260	1,004,630	1,040,030	1,087,880	1,124,420	1,174,290	1,217,320	17.0	3.7	7.1
Two Wheelers	95,260	97,130	92,880	92,880	91,950	95,970	97,590	99,330	103,670	12.7	4.4	0.6
Gold Loans	82,130	81,090	81,980	83,500	88,080	94,340	100,420	108,420	116,910	32.7	7.8	0.7
Personal Loans	1,204,660	1,263,580	1,333,990	1,401,270	1,479,280	1,548,200	1,646,410	1,716,760	1,767,340	19.5	2.9	10.4
Payment products	630,920	677,830	733,050	767,570	801,420	819,660	833,140	861,040	904,360	12.8	5.0	5.3
Other retail Loans	411,370	456,040	484,070	514,790	544,400	535,800	563,740	597,540	594,980	9.3	(0.4)	3.5
<b>Total Retail Loans</b>	<b>4,582,750</b>	<b>4,829,420</b>	<b>5,057,510</b>	<b>5,317,680</b>	<b>5,578,810</b>	<b>5,805,480</b>	<b>6,066,010</b>	<b>6,345,780</b>	<b>6,578,000</b>	<b>17.9</b>	<b>3.7</b>	<b>38.6</b>
<b>Commercial &amp; Rural Banking</b>												
Emerging Corporates	1,234,900	1,296,120	3,841,950	1,478,350	1,527,810	1,645,580	1,706,230	1,831,510	1,877,830	22.9	2.5	11.0
Business Banking	1,467,690	1,598,070	-	1,915,990	1,991,680	2,180,140	2,320,490	2,534,520	2,590,130	30.0	2.2	15.2
Commercial Transportation	659,690	696,010	-	807,570	845,370	918,900	996,840	1,108,310	1,163,950	37.7	5.0	6.8
Agriculture	501,050	560,040	560,310	646,450	615,790	702,780	709,120	817,190	796,370	29.3	(2.5)	4.7
<b>Total Commercial Rural Banking</b>	<b>3,863,330</b>	<b>4,150,240</b>	<b>4,402,260</b>	<b>4,848,360</b>	<b>4,980,650</b>	<b>5,447,400</b>	<b>5,732,680</b>	<b>6,291,530</b>	<b>6,428,280</b>	<b>29.1</b>	<b>2.2</b>	<b>37.7</b>
Corporate & Other Wholesale	3,146,210	3,124,230	3,261,820	3,640,110	3,639,390	3,967,790	3,922,540	4,097,120	4,046,370	11.2	(1.2)	23.7
<b>Total Gross Loan</b>	<b>11,592,290</b>	<b>12,103,890</b>	<b>12,721,590</b>	<b>13,806,150</b>	<b>14,198,850</b>	<b>15,220,670</b>	<b>15,721,230</b>	<b>16,734,430</b>	<b>17,052,650</b>	<b>20.1</b>	<b>1.9</b>	<b>100</b>

Source: Company, BOBCAPS Research

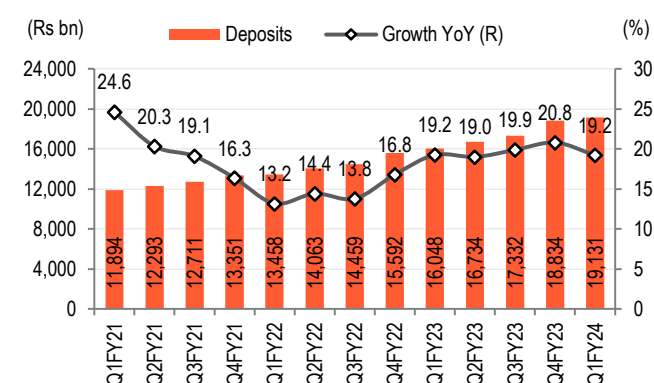
**Fig 6 – Segmental loan book distribution in percentage terms**

(%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
<b>Retail Loans</b>											
Home Loans	6.2	6.3	6.2	6.0	6.2	6.1	6.2	6.1	6.4	15bps	26bps
Loan Against Property	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	4.6	4bps	4bps
Auto Loans	7.9	7.9	7.6	7.3	7.3	7.1	7.2	7.0	7.1	(19bps)	12bps
Two Wheelers	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	(4bps)	1bps
Gold Loans	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.7	7bps	4bps
Personal Loans	10.4	10.4	10.5	10.1	10.4	10.2	10.5	10.3	10.4	(5bps)	11bps
Payment products	5.4	5.6	5.8	5.6	5.6	5.4	5.3	5.1	5.3	(34bps)	16bps
Other retail Loans	3.5	3.8	3.8	3.7	3.8	3.5	3.6	3.6	3.5	(35bps)	(8bps)
<b>Total Retail Loans</b>	<b>39.5</b>	<b>39.9</b>	<b>39.8</b>	<b>38.5</b>	<b>39.3</b>	<b>38.1</b>	<b>38.6</b>	<b>37.9</b>	<b>38.6</b>	<b>(72bps)</b>	<b>65bps</b>
<b>Commercial &amp; Rural Banking</b>											
Emerging Corporates	10.7	10.7	30.2	10.7	10.8	10.8	10.9	10.9	11.0	25bps	7bps
Business Banking	12.7	13.2	0.0	13.9	14.0	14.3	14.8	15.1	15.2	116bps	4bps
Commercial Transportation	5.7	5.8	0.0	5.8	6.0	6.0	6.3	6.6	6.8	87bps	20bps
Agriculture	4.3	4.6	4.4	4.7	4.3	4.6	4.5	4.9	4.7	33bps	(21bps)
<b>Total Commercial Rural Banking</b>	<b>33.3</b>	<b>34.3</b>	<b>34.6</b>	<b>35.1</b>	<b>35.1</b>	<b>35.8</b>	<b>36.5</b>	<b>37.6</b>	<b>37.7</b>	<b>262bps</b>	<b>10bps</b>
Corporate & Other Wholesale	27.1	25.8	25.6	26.4	25.6	26.1	25.0	24.5	23.7	(190bps)	(75bps)
<b>Total Gross Loan</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>-</b>

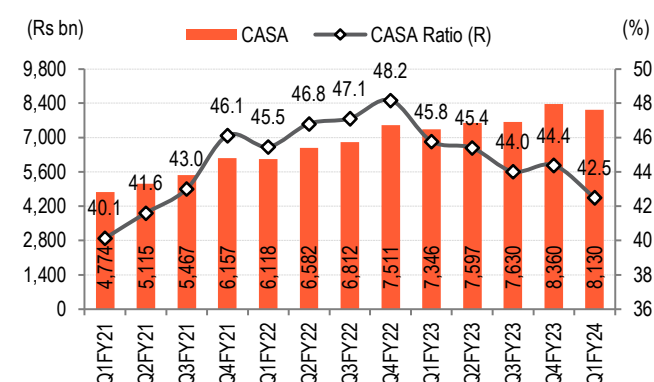
Source: Company, BOBCAPS Research

**Fig 7 – Credit grew 16% YoY supported by retail & CRB**

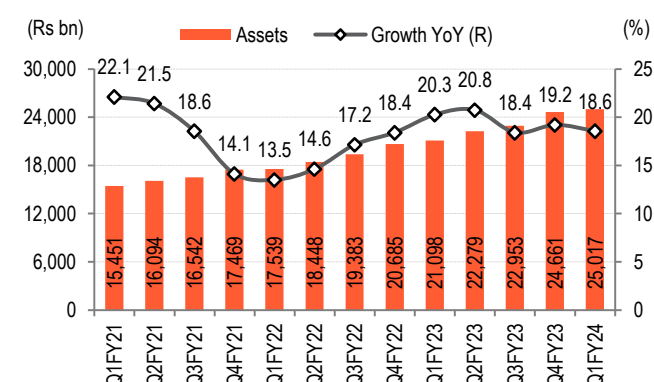
Source: Company, BOBCAPS Research

**Fig 8 – Deposits grew 19% YoY, outpacing loan growth**

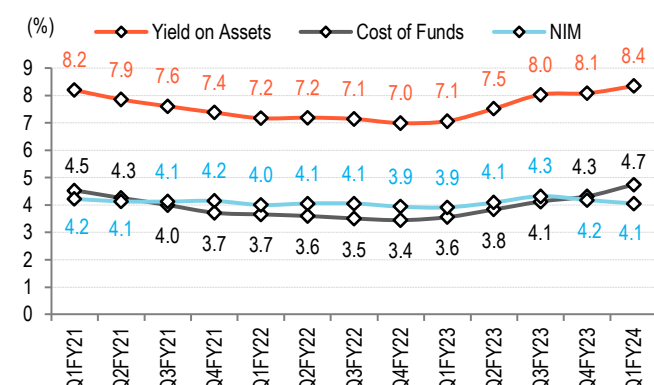
Source: Company, BOBCAPS Research

**Fig 9 – CASA was subdued (seasonal impact)**

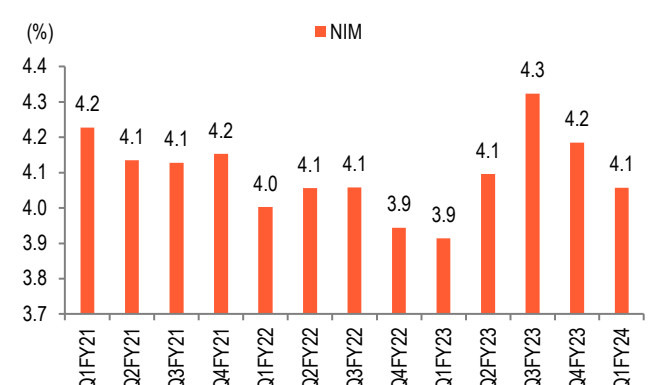
Source: Company, BOBCAPS Research

**Fig 10 – Assets grew 19% YoY**

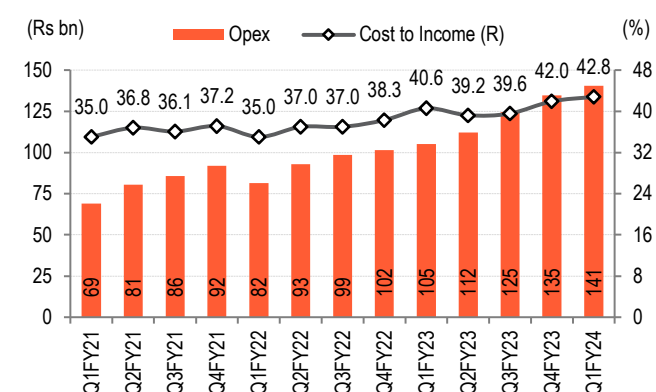
Source: Company, BOBCAPS Research

**Fig 11 – Deposit repricing led to a higher cost of funds...**

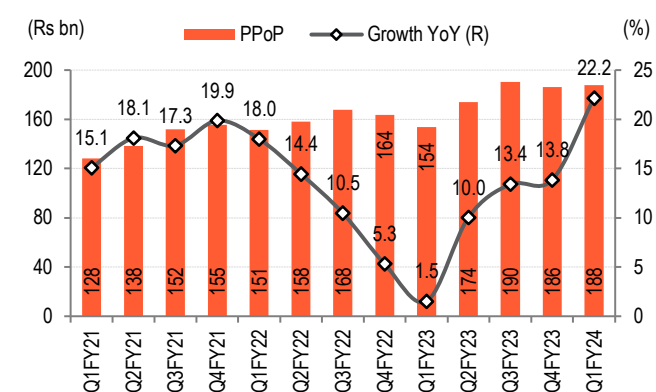
Source: Company, BOBCAPS Research

**Fig 12 – ...causing NIM to contract 13bps QoQ**

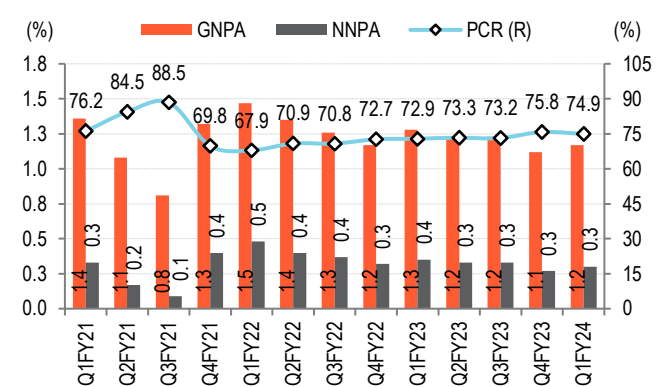
Source: Company, BOBCAPS Research

**Fig 13 – Higher employee cost kept CI elevated**

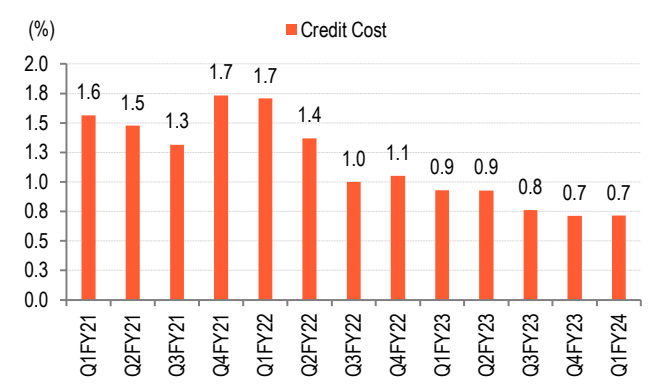
Source: Company, BOBCAPS Research

**Fig 14 – PPOP growth was constrained by higher opex**

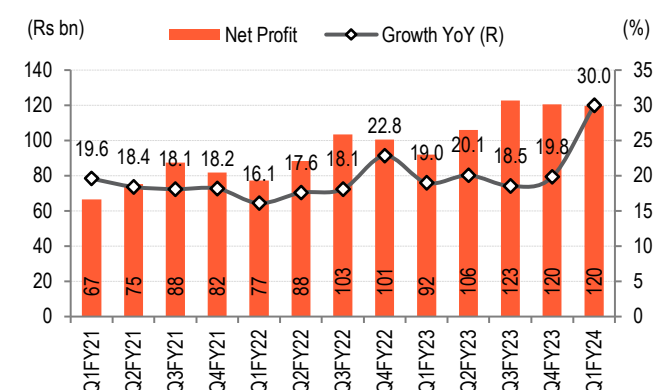
Source: Company, BOBCAPS Research

**Fig 15 – Asset quality stable QoQ**

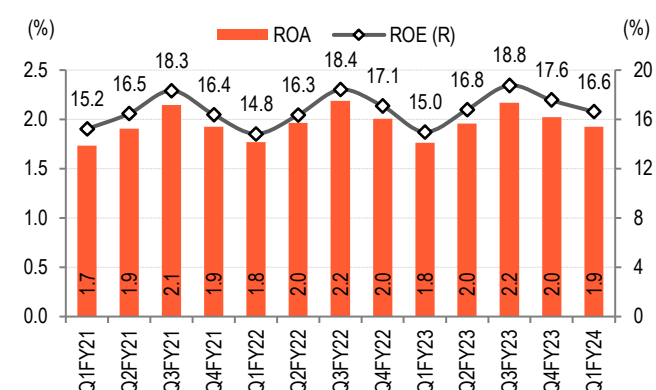
Source: Company, BOBCAPS Research

**Fig 16 – Credit cost remained flat at 70bps**

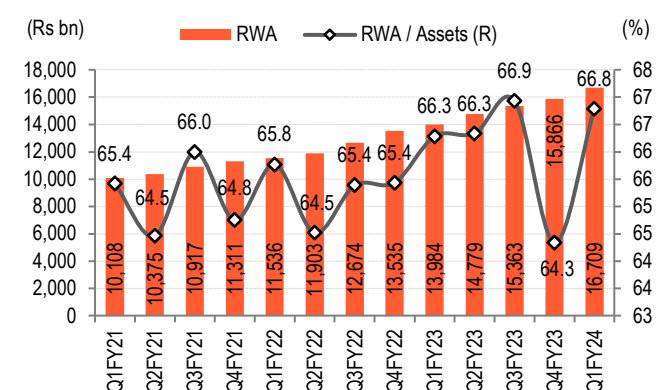
Source: Company, BOBCAPS Research

**Fig 17 – PAT grew 30% YoY supported lower provisions**

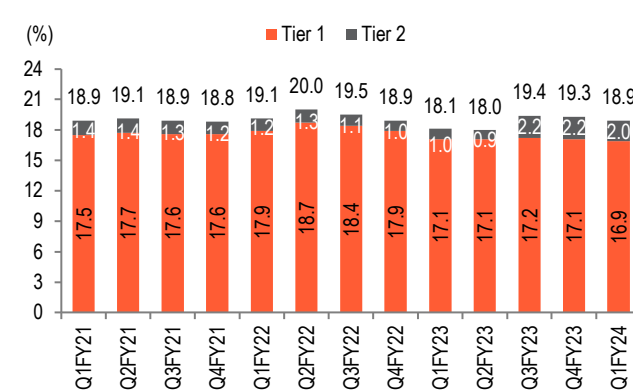
Source: Company, BOBCAPS Research

**Fig 18 – High return ratios maintained**

Source: Company, BOBCAPS Research

**Fig 19 – RWA/Asset stood at 67% vs. 64% in Q4**

Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

**Fig 20 – Well capitalised with CAR of 19%**

Source: Company, BOBCAPS Research

## Earnings call takeaways

### Guidance

- HDFCB has guided for 17-18% credit growth and 1.9-2.1% ROA for the merged entity in FY24.

### Loan book

- Q1 is typically a slow quarter in terms of growth in loans, deposits, and network.
- Mortgage loans of merged housing finance arm HDFC will be moved to EBLR-linked repo-based loans.
- The bank's loan growth stood at 15.7% YoY (+0.9% QoQ) net of IBPC in Q1FY24. Including IBPC, loan growth was 20% YoY. Management clarified that HDFCB does not have a target for IBPC as this business is opportunistic in nature.
- For the housing finance arm, individual loans grew 14% YoY while non-individual loans declined 18% in Q1 as management is reassessing these before deciding on the growth trajectory for the business.
- HDFC's non-individual loans will continue to run down for the next two quarters as these include land and project financing (book size of ~Rs 50bn-100bn) that do not meet regulatory requirements.

### Merged entity

- Pre-merger HDFCB plus the individual loan book of HDFC grew 18.7% YoY in Q1 (excluding the impact of IBPC).
- Similarly, the entire loan book of both entities' pre-merger grew 16% YoY ex-IBPC impact (and 13% including IBPC).
- The mortgage mix in the merged loan book stands at 35% vs. the bank's current 11%.

## Deposits

- HDFCB intends to keep deposit pricing competitive considering its funding requirement and will drive business without targeting market share in deposits.
- The slowdown in CASA during the quarter is seasonal and management is confident of improving this metric.
- A total of 2.4mn new liability customers were added during the quarter totalling to 85mn.
- Pre-merger, the bank's average CD ratio was 85-88% while the incremental CD ratio was 50% for the merged entity in Q1FY24. Management estimates a return to standalone bank levels in the medium term (3-4 years).
- Retail deposit accretion stood at Rs 380bn in Q1, constituting 83.5% of deposits vs. 82% a year ago, and the goal is to add retail deposits to the tune of Rs 1tn per quarter.
- The bank's LCR was at 126% pre-merger and 120% post-merger on proforma basis.

## Asset quality

- Slippages for the quarter stood at Rs 58bn (or 35bps of advances) which dips to Rs 42bn (26bps) ex-agriculture loans.
- Recoveries and upgrades totalled Rs 26.5bn (16bps) while write-offs stood at Rs 21bn (14bps). There was no sale to ARC during the quarter.
- Restructuring under the Covid resolution framework was at Rs 42.7bn (27bps). In addition, certain facilities of the same borrower that were not restructured stood at ~5bps or Rs 8bn.
- PCR was at 75% with contingent and floating provisions at Rs 111.5bn (same QoQ) and general provisions at Rs 71.5bn. Total provisioning stood at 171% of GNPA or 112bps of advances.
- Credit cost came in at 71bps for the quarter (51bps net of recoveries).

## Opex

- The bank added 39 branches, 625 ATMs and 8,503 employees during the quarter vs. 1482, 1732 and 29,214 respectively last year.
- HDFCB embarked on aggressive branch expansion from Dec'21 and has indicated that a branch takes 18-24 months to break even. Hence, by the year-end, management expects many branches to approach breakeven levels.
- Merger-related costs are likely to be manageable and the bank sees no major impact on profitability.



**Net interest margin**

- NIM was at 4.06% in Q1, declining 13bps QoQ while rising 10bps YoY.
- Cost of funds has moved up due to a change in deposit mix towards term deposits, though these are not priced aggressively but rather at or just below competitor pricing.

**Business & Networks**

- The bank added 1.5mn credit cards in Q1FY24, taking the total to 18.4mn, while card spend has increased by 30% YoY.
- HDFCB expanded its presence to 170,000 villages, in line with the target of 200,000 villages. Gold loan processing is now offered from 4,336 branches, an increase of 2x YoY.

**Subsidiary performance****HDB Financials**

- HDB Financials opened 89 branches in Q1FY24, taking its network to 1,581 branches spread across 1,100 cities.
- The customer base stands at 12.8mn with ~7.3mn added during the quarter. Its loan book stood at Rs 736bn in Q1 vs. Rs 618bn in the year-ago quarter.
- Stage-3 loans were at 2.5% of advances vs. 2.7% in Q4FY23 and 4.9% in Q1FY23. PCR on the stage-3 book was at 66%.
- The company reported ROA of 3.2% (3.07% in Q4FY23) and ROE of 19.4% (18.7% in Q4FY23).
- HDB Financials is well capitalised with CAR of 19.8% (20.1% in Q4FY23).

**HDFC Securities**

- HDFC Securities reported revenue of Rs 5bn and PAT of Rs 1.9bn for the quarter.
- The company has a branch network of 207 spread across 147 cities and towns.
- The client base totalled 4.6mn as of Q1FY24 and 0.6mn clients were added in the last 12 months.
- About 93% of active clients are using the digital platform.

## Valuation methodology

HDFCB has delivered a healthy opening quarter in FY24 supported by higher non-core income and lower provisions. Deposits (19.2% YoY) outpaced loan growth (16% YoY) in Q1 underpinned by the retail and CRB divisions. Post-merger with housing finance arm HDFC, we now estimate a 38% loan CAGR and 28% deposit CAGR for the bank over FY23-FY25 vs. 19.4% and 18.7% respectively pre-merger. Though a rising share of term deposits in the mix would put pressure on NIM, we expect some offset from the bank's growing retail business (47% of the loan mix vs. 46% in Q1FY23). Management is confident of achieving guided NIM of 3.9-4.1% over FY24-FY25 and we model for similar levels.

Non-core income is likely to stay healthy with strong traction in fee income and reversal of treasury losses. Operational cost should soften as branch expansion nears breakeven and technology investments kick in. Further, operational leverage at HDFC is likely to promote efficiencies for the merged entity. We now bake in a post-merger C/I ratio of 38%/35% for FY24/FY25 vs. 40.4% in FY23 (42.8% in Q1FY24) and a 39% CAGR in PPOP over FY23-FY25 vs. 17.4% prior to the merger.

We do not anticipate major asset quality concerns over our forecast period and model for stable GNPA/NNPA ratios at 1.2%/0.34% for FY25 with a PCR of 72%.

Management has guided for a return to pre-Covid credit cost of ~100bps (currently at 70bps) as retail loan share rises. In our view, the bank's conservative strategy towards overall business and specifically towards asset quality via buffer provisioning (floating, contingent, and general provisions formed 171% of GNPA in Q1) will effectively rein in credit cost at 90bps and 96bps for FY24 and FY25 respectively.

PAT is now forecast to clock a 37% CAGR over FY23-FY25 (vs. 14.2% pre-merger), with ROA/ROE of 2.0%/17% in FY25. In terms of CAR, HDFCB remains well capitalised at 19% wherein CET-1 stands at 16.2% (as on Q1FY24). As expected, the bank's focus on the retail and CRB segments has added some risk-weighted assets to the balance sheet. RWA to total assets stood at 67% in Q1 vs. 64% in Q4FY23 and we estimate a 68% level for FY25, with CAR at a healthy 18.8%. Strong capitalisation would offer scope to garner higher business share.

Given the bank's healthy growth outlook, we retain BUY. We revise our target FY25E P/ABV multiple for the combined entity to 2.8x based on the Gordon Growth Model (vs. 3.1x pre-merger considering some moderation in growth and margins) and add in Rs 178/sh as the value of subsidiaries (vs. Rs 56/sh earlier to build in structural changes in the parent company). Coupled with estimate revision, this translates to a new SOTP-based TP of Rs 2,061 (vs. Rs 1,956 pre-merger).

**Fig 21 – Revised estimates**

Key Parameters (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	25,929,492	30,363,435	19,159,013	22,837,544	35.3	33.0
Deposits	25,049,149	30,685,207	22,412,396	26,558,690	11.8	15.5
Assets	37,434,319	44,087,438	28,322,483	33,497,229	32.2	31.6
NII	1,158,155	1,573,076	1,018,026	1,185,894	13.8	32.6
PPOP	961,678	1,361,843	824,074	970,156	16.7	40.4
Provision	188,709	270,206	156,289	200,699	20.7	34.6
PAT	585,137	823,094	499,503	575,553	17.1	43.0

Source: BOBCAPS Research

**Fig 22 – Key operational assumptions**

(%)	FY22	FY23P	FY24E	FY25E
Advances	20.8	16.9	62.0	17.1
Net Interest Income	11.0	20.6	33.4	35.8
PPoP	11.7	9.9	36.6	41.6
PAT	18.8	19.3	32.7	40.7
NIM	3.9	4.1	3.9	4.1
GNPA	1.2	1.1	1.3	1.2
CAR	19.4	19.3	19.7	18.8

Source: Company, BOBCAPS Research

**Fig 23 – Valuation assumptions**

Gordon growth model	Assumptions
Risk-free rate (%)	6.3
Equity risk premium (%)	5.1
Beta	1.2
Cost of equity (%)	12.4
Blended ROE (%)	16.8
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	8.4
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	2.8

Source: Company, BOBCAPS Research

**Fig 24 – Valuation summary**

Business	Valuation	Holdings (%)	Rs/sh
HDFC Bank	2.8x FY25E ABV	100.0	1,883
HDFC Life	Mcap	50.4	85
HDFC AMC	Mcap	52.6	32
HDFC Ergo	35x FY25E EPS	50.5	18
HDB Financials	1.7x FY25E ABV	94.9	30
HDFC Securities	12x FY25E EPS	95.6	13
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,061</b>

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- a weak demand environment leading to a general slowdown in credit offtake, and
- unexpected asset quality shocks leading to higher credit cost.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	36.1	964	1,111	BUY
Federal Bank	FB IN	3.5	135	165	BUY
HDFC Bank	HDFCB IN	153.9	1,678	2,061	BUY
ICICI Bank	ICICIB IN	82.9	975	1,015	HOLD
Indusind Bank	IIB IN	13.1	1,390	1,550	BUY
Kotak Mahindra Bank	KMB IN	45.7	1,891	2,122	HOLD
State Bank of India	SBIN IN	64.3	592	729	BUY

Source: BOBCAPS Research, NSE | Price as of 18 Jul 2023

## Glossary

Glossary of Abbreviations			
<b>AUCA</b>	Advance Under Collection Account	<b>LCR</b>	Liquidity Coverage Ratio
<b>ARC</b>	Asset Reconstruction Company	<b>MCLR</b>	Marginal Cost of Funds-based Lending Rate
<b>BRDS</b>	Bills Rediscounting Scheme	<b>MTM</b>	Mark to Market
<b>CASA</b>	Current Account and Savings Account	<b>NII</b>	Net Interest Income
<b>CAR</b>	Capital Adequacy Ratio	<b>NIM</b>	Net Interest Margin
<b>CET1</b>	Common Equity Tier 1	<b>NNPA</b>	Net Non-Performing Assets
<b>CD</b>	Credit-Deposit Ratio	<b>PCR</b>	Provision Coverage Ratio
<b>C/I</b>	Cost-Income Ratio	<b>PPOP</b>	Pre-Provision Operating Profit
<b>CRB</b>	Commercial and Rural Banking	<b>PSU</b>	Public Sector Unit
<b>EBLR</b>	External Benchmark-based Lending Rate	<b>RWA</b>	Risk-weighted Assets
<b>ECL</b>	Expected Credit Loss	<b>SLR</b>	Statutory Liquidity Ratio
<b>GNPA</b>	Gross Non-Performing Assets	<b>SMA</b>	Special Mention Account
<b>IBPC</b>	Interbank Participation Certificate	<b>SME</b>	Small and Medium-sized Enterprises

## Financials pre-merger

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	648,796	720,096	868,422	1,018,026	1,185,894
NII growth (%)	15.5	11.0	20.6	17.2	16.5
Non-interest income	252,049	295,099	312,148	384,129	448,193
Total income	900,845	1,015,195	1,180,571	1,402,155	1,634,087
Operating expenses	327,226	374,422	476,521	578,081	663,931
PPOP	573,618	640,773	704,050	824,074	970,156
PPOP growth (%)	17.7	11.7	9.9	17.0	17.7
Provisions	157,029	150,618	119,197	156,289	200,699
PBT	416,590	490,155	584,853	667,785	769,456
Tax	105,425	120,541	143,766	168,282	193,903
Reported net profit	311,165	369,614	441,087	499,503	575,553
Adjustments	0	0	0	0	0
Adjusted net profit	311,165	369,614	441,087	499,503	575,553

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	5,513	5,546	5,580	5,580	5,580
Reserves & surplus	2,031,695	2,395,384	2,796,411	3,181,028	3,624,204
Net worth	2,037,208	2,400,929	2,801,990	3,186,608	3,629,784
Deposits	13,350,602	15,592,174	18,833,947	22,412,396	26,558,690
Borrowings	1,354,873	1,848,172	2,067,656	2,315,774	2,663,140
Other liab. & provisions	726,022	844,075	957,223	407,704	645,615
Total liab. & equities	17,468,705	20,685,350	24,660,815	28,322,483	33,497,229
Cash & bank balance	1,194,704	1,523,269	1,937,651	1,579,735	1,922,115
Investments	4,437,283	4,555,357	5,170,014	6,388,168	7,499,050
Advances	11,328,366	13,688,209	16,005,859	19,159,013	22,837,544
Fixed & Other assets	508,352	918,515	1,547,291	1,195,566	1,238,520
Total assets	17,468,705	20,685,351	24,660,815	28,322,483	33,497,229
Deposit growth (%)	16.3	16.8	20.8	19.0	18.5
Advances growth (%)	14.0	20.8	16.9	19.7	19.2

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	56.6	66.8	79.3	89.5	103.2
Dividend per share	0.0	6.5	19.0	20.6	23.7
Book value per share	369.5	432.9	502.2	571.1	650.5

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	29.6	25.1	21.2	18.7	16.3
P/BV	4.5	3.9	3.3	2.9	2.6
Dividend yield (%)	0.0	0.4	1.1	1.2	1.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	4.0	3.8	3.8	3.8	3.8
Non-interest income	1.5	1.5	1.4	1.5	1.5
Operating expenses	2.0	2.0	2.1	2.2	2.1
Pre-provisioning profit	3.5	3.4	3.1	3.1	3.1
Provisions	1.0	0.8	0.5	0.6	0.6
PBT	2.5	2.6	2.6	2.5	2.5
Tax	0.6	0.6	0.6	0.6	0.6
ROA	1.9	1.9	1.9	1.9	1.9
Leverage (x)	8.7	8.6	8.7	8.8	9.1
ROE	16.6	16.7	17.0	16.7	16.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Net interest income	15.5	11.0	20.6	17.2	16.5
Pre-provisioning profit	17.7	11.7	9.9	17.0	17.7
EPS	17.8	18.1	18.6	12.9	15.2
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	3.9	4.1	4.1	4.0
Fees / Avg. assets	1.0	1.0	1.1	1.0	1.0
Cost-Income	36.3	36.9	40.4	41.2	40.6
ROE	16.6	16.7	17.0	16.7	16.9
ROA	1.9	1.9	1.9	1.9	1.9
<b>Asset quality (%)</b>					
GNPA	1.3	1.2	1.1	1.2	1.2
NNPA	0.4	0.3	0.3	0.3	0.3
Slippage ratio	1.6	2.4	1.8	2.2	2.3
Credit cost	1.5	1.2	0.8	0.9	1.0
Provision coverage	69.8	72.7	75.8	72.0	72.0
<b>Ratios (%)</b>					
Credit-Deposit	84.9	87.8	85.0	85.5	86.0
Investment-Deposit	33.2	29.2	27.5	28.5	28.2
CAR	18.8	18.9	19.3	19.0	18.2
Tier-1	17.6	17.9	17.1	17.0	16.3

Source: Company, BOBCAPS Research

## Proforma financials post-merger

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	648,796	720,096	868,422	1,158,155	1,573,076
Nil growth (%)	5.3%	11.0%	20.6%	33.4%	35.8%
Non-interest income	252,049	295,099	312,148	391,199	513,587
Total income	900,845	1,015,195	1,180,571	1,549,354	2,086,663
Operating expenses	327,226	374,422	476,521	587,677	724,820
PPOP	573,618	640,773	704,050	961,678	1,361,843
PPOP growth (%)	17.7%	11.7%	9.9%	36.6%	41.6%
Provisions	157,029	150,618	119,197	188,709	270,206
PBT	416,590	490,155	584,853	772,969	1,091,637
Tax	105,425	120,541	143,766	187,831	268,543
Reported net profit	311,165	369,614	441,087	585,137	823,094
Adjustments	0	0	0	0	0
Adjusted net profit	311,165	369,614	441,087	585,137	823,094

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	5,513	5,546	5,580	7,538	7,538
Reserves & surplus	2,031,695	2,395,384	2,796,411	4,588,996	5,231,009
Net worth	2,037,208	2,400,929	2,801,990	4,596,533	5,238,547
Deposits	13,350,602	15,592,174	18,833,947	25,049,149	30,685,207
Borrowings	1,354,873	1,848,172	2,067,656	6,814,555	7,223,428
Other liab. & provisions	726,022	844,075	957,223	974,082	940,255
Total liab. & equities	17,468,705	20,685,350	24,660,815	37,434,319	44,087,438
Cash & bank balance	1,194,704	1,523,269	1,937,651	1,961,348	2,402,652
Investments	4,437,283	4,555,357	5,170,014	7,647,289	9,098,073
Advances	11,328,366	13,688,209	16,005,859	25,929,492	30,363,435
Fixed & Other assets	508,352	918,515	1,547,291	1,896,190	2,223,279
Total assets	17,468,705	20,685,351	24,660,815	37,434,319	44,087,438
Deposit growth (%)	16.3	16.8	20.8	33.0	22.5
Advances growth (%)	14.0	20.8	16.9	62.0	17.1

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	19.1	22.0	21.6	77.6	109.2
Dividend per share	6.5	15.5	19.0	17.1	24.0
Book value per share	369.5	432.9	502.2	609.8	695.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	29.6	25.1	21.2	21.6	15.4
P/BV	4.5	3.9	3.3	2.8	2.4
Dividend yield (%)	0.4	0.9	1.1	1.0	1.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	4.0	3.8	3.8	3.7	3.9
Non-interest income	1.5	1.5	1.4	1.3	1.3
Operating expenses	2.0	2.0	2.1	1.9	1.8
Pre-provisioning profit	3.5	3.4	3.1	3.1	3.3
Provisions	1.0	0.8	0.5	0.6	0.7
PBT	2.5	2.6	2.6	2.5	2.7
Tax	0.6	0.6	0.6	0.6	0.7
ROA	1.9	1.9	1.9	1.9	2.0
Leverage (x)	8.7	8.6	8.7	8.4	8.3
ROE	16.6	16.7	17.0	15.8	16.7

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Net interest income	15.5	11.0	20.6	33.4	35.8
Pre-provisioning profit	17.7	11.7	9.9	36.6	41.6
EPS	15.1	15.3	-1.8	259.4	40.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	3.9	4.1	3.9	4.1
Fees / Avg. assets	1.0	1.0	1.1	0.9	0.9
Cost-Income	36.3	36.9	40.4	37.9	34.7
ROE	16.6	16.7	17.0	15.8	16.7
ROA	1.9	1.9	1.9	1.9	2.0
<b>Asset quality (%)</b>					
GNPA	1.3	1.2	1.1	1.3	1.2
NNPA	0.4	0.3	0.3	0.4	0.3
Slippage ratio	1.6	2.4	1.8	1.8	1.8
Credit cost	1.5	1.2	0.8	0.9	1.0
Provision coverage	72.0	69.8	72.7	72.0	72.0
<b>Ratios (%)</b>					
Credit-Deposit	84.9	87.8	85.0	103.5	99.0
Investment-Deposit	33.2	29.2	27.5	30.5	29.6
CAR	18.0	19.4	19.3	19.7	18.8
Tier-1	17.1	17.2	17.1	17.1	16.5

Source: Company, BOBCAPS Research

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## Disclaimer

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CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

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

**BUY** – Expected return >+15%

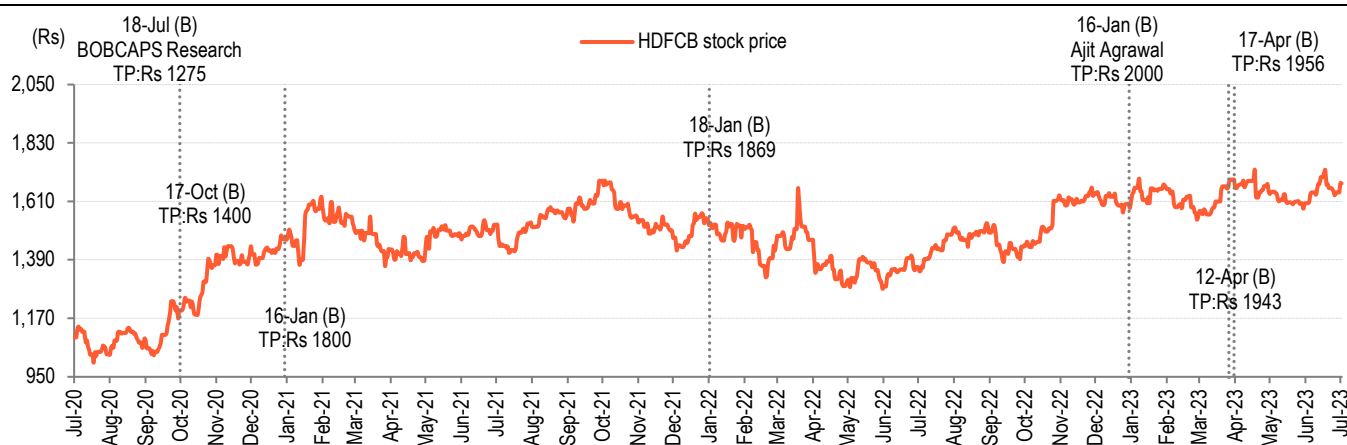
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): HDFC BANK (HDFCB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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