

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

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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%

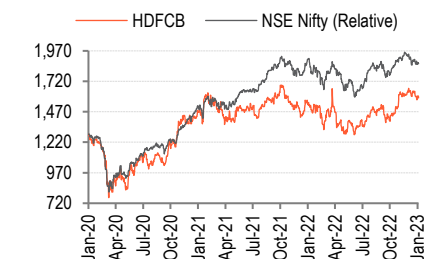
Source: NSE | Price as of 16 Jan 2023

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



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Income Statement									
Interest Income	2,35,927	2,41,149	2,48,955	2,59,089	2,74,023	3,04,094	3,36,414	35.1	10.63
Income on investments	64,931	64,506	65,258	65,765	71,936	77,019	80,392	23.2	4.38
Int. on bal. with RBI & inter-bank funds & Others	3,971	7,878	10,467	9,633	5,762	4,751	10,271	(1.9)	116.2
Interest income	3,04,830	3,13,534	3,24,681	3,34,487	3,51,720	3,85,864	4,27,078	31.5	10.68
Interest expense	1,34,740	1,36,690	1,40,246	1,45,760	1,56,906	1,75,652	1,97,199	40.6	12.27
Net interest income	1,70,090	1,76,844	1,84,435	1,88,727	1,94,814	2,10,212	2,29,878	24.6	9.36
Growth YoY (%)	8.6	12.1	13.0	10.2	14.5	18.9	24.6	1161bps	577bps
Fee Income	38,854	49,459	50,751	56,303	53,604	58,029	60,526	19.3	4.3
Trading gains/(losses)	6,010	6,755	10,465	403	(13,117)	(2,531)	2,614	(75.0)	(203.3)
Forex Income	11,987	8,673	9,495	8,925	12,593	9,478	10,741	13.1	13.3
Others	6,034	9,121	11,125	10,740	10,802	10,980	11,117	(0.1)	1.3
Non-interest income	62,885	74,008	81,836	76,371	63,882	75,956	84,998	3.86	11.9
Growth YoY (%)	54.3	21.5	9.9	0.6	1.6	2.6	3.9	(608bps)	123bps
Non-interest income (Ex- Treasury)	56,875	67,253	71,371	75,968	76,999	78,487	82,384	15.43	5.0
Total income	2,32,975	2,50,852	2,66,270	2,65,098	2,58,697	2,86,167	3,14,877	18.3	10.0
Growth YoY (%)	18.0	14.7	12.1	7.3	11.0	14.1	18.3	619bps	418bps
Staff expenses	27,656	29,671	31,544	31,446	35,002	35,238	41,262	30.8	17.1
Other operating expenses	53,949	63,108	66,967	70,082	70,016	77,007	83,374	24.5	8.3
Operating expenses	81,604	92,779	98,511	1,01,528	1,05,018	1,12,246	1,24,636	26.5	11.0
Pre-Provisioning Profit (PPoP)	1,51,370	1,58,073	1,67,760	1,63,570	1,53,678	1,73,922	1,90,241	13.40	9.4
Growth YoY (%)	18.0	14.4	10.5	5.3	1.5	10.0	13.4	293bps	337bps
Pre-Provisioning Profit (Ex- Treasury)	1,45,360	1,51,318	1,57,295	1,63,167	1,66,795	1,76,453	1,87,627	19.28	6.3
Growth YoY (%)	23.8	18.2	11.7	9.7	14.7	16.6	19.3	755bps	267bps
Provisions	48,308	39,247	29,940	33,124	31,877	32,401	28,064	(6.26)	(13.4)
Growth YoY (%)	24.1	6.0	(12.3)	(29.4)	(34.0)	(17.4)	(6.3)	604bps	1118bps
PBT	1,03,062	1,18,826	1,37,820	1,30,447	1,21,801	1,41,520	1,62,176	17.7	14.6
Tax	25,766	30,483	34,398	29,895	29,841	35,463	39,581	15.1	11.6
PAT	77,296	88,343	1,03,422	1,00,552	91,960	1,06,058	1,22,595	18.5	15.6
Growth YoY (%)	16.1	17.6	18.1	22.8	19.0	20.1	18.5	45bps	(151bps)
Per Share									
FV (Rs)	1	1	1	1	1	1	1	0.0	0.0
EPS (Rs)	14	16	19	18	17	19	22	17.8	15.3
Book Value (Rs)	384	395	414	433	451	456	480	15.8	5.2

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & Key ratios

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Balance sheet									
Deposits	1,34,58,293	1,40,63,433	1,44,59,181	1,55,92,174	1,60,47,600	1,67,34,080	1,73,32,040	19.9	3.6
Growth YoY (%)	13.2	14.4	13.8	16.8	19.2	19.0	19.9	612bps	88bps
Advances	1,14,76,516	1,19,88,374	1,26,08,628	1,36,88,209	1,39,50,677	1,47,98,732	1,50,68,093	19.5	1.8
Growth YoY (%)	14.4	15.5	16.5	20.8	21.6	23.4	19.5	301bps	(394bps)
Investment	43,61,316	41,62,926	42,25,853	45,55,357	49,61,567	51,91,159	52,72,767	24.8	1.6
Equity	21,24,879	21,87,101	22,96,396	24,00,929	25,02,849	25,41,114	26,75,424	16.5	5.3
Assets	1,75,39,411	1,84,48,447	1,93,82,860	2,06,85,351	2,10,97,715	2,22,78,934	2,29,53,053	18.4	3.0
Growth YoY (%)	13.5	14.6	17.2	18.4	20.3	20.8	18.4	125bps	(234bps)
Yield (%)									
Yield on Funds	7.17	7.19	7.14	6.99	7.07	7.52	8.03	89bps	51bps
Cost of Funds	3.66	3.61	3.51	3.45	3.56	3.84	4.13	61bps	28bps
Spread	3.52	3.59	3.63	3.54	3.50	3.68	3.91	28bps	23bps
Net Interest Margin	4.00	4.06	4.06	3.94	3.91	4.10	4.32	27bps	23bps
Ratios (%)									
Other Income / Net Income	27.0	29.5	30.7	28.8	24.7	26.5	27.0	(374bps)	45bps
Cost to Income ratio	65.0	63.0	63.0	61.7	59.4	60.8	60.4	(259bps)	(36bps)
CASA ratio	45.5	46.8	47.1	48.2	45.8	45.4	44.0	(309bps)	(138bps)
C/D ratio	85.3	85.2	87.2	87.8	86.9	88.4	86.9	(26bps)	(150bps)
Investment to Assets	24.9	22.6	21.8	22.0	23.5	23.3	23.0	117bps	(33bps)
Assets Quality									
GNPA	1,70,985	1,63,461	1,60,136	1,61,410	1,80,337	1,83,010	1,87,639	17.2	2.5
NNPA	54,858	47,551	46,768	44,077	48,877	48,827	50,243	7.4	2.9
Provision	1,16,127	1,15,910	1,13,368	1,17,333	1,31,459	1,34,183	1,37,396	21.2	2.4
GNPA (%)	1.47	1.35	1.26	1.17	1.28	1.23	1.23	(3bps)	0bps
NNPA (%)	0.48	0.40	0.37	0.32	0.35	0.33	0.33	(4bps)	0bps
Provision (%)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	243bps	(10bps)
Slippages (%)	2.5	1.8	1.6	1.3	2.1	1.6	1.8	20bps	20bps
Others									
Branches	5,653	5,686	5,779	6,342	6,378	6,499	7,183	1,404	684
ATMs	16,291	16,642	17,238	18,130	18,620	18,868	19,007	1,769	139
Employees	1,23,473	1,29,341	1,34,412	1,41,579	1,52,511	1,61,027	1,66,890	32,478	5,863

Source: Company, BOBCAPS Research

Results highlights

Loans and deposits

- During Q3FY23, HDFCB's loans grew 19.5% YoY (1.8% QoQ) aided by a strong uptick in commercial & rural business (CRB: 30.2% YoY). Retail loans increased 19.9% YoY backed by robust personal loan growth (23.4% YoY and 6.3% QoQ). Corporate loans dipped 1% QoQ but jumped 20.3% YoY.
- On the liability side, deposits grew by 19.9% YoY wherein low-cost CASA (current account and savings account) slowed to 12% YoY, resulting in a CASA ratio of 44% (-140bps QoQ).
- Strong credit offtake led to a 78bps increase in credit/deposit ratio to 87.7%.

NII and NIM

- NII increased by 24.6% YoY and 9.4% QoQ to Rs 229.8bn, wherein interest income grew 31.5% YoY on the back of (1) strong core interest income and (2) a jump in other income to Rs 7.9bn (vs. Rs 3.1bn in Q2FY23), led by an income tax refund that contributed 6bps to NIM.
- NIM (calc.) during the quarter increased by 22bps QoQ to 4.3%.
- Other income at Rs 85bn grew at a muted 4% YoY on a higher base, but was up 12% sequentially as the bank booked a treasury gain of Rs 2.6bn vs. a loss of Rs 2.5bn last quarter from the AFS (available for sale) book.
- Fee income was up 19.3% YoY (4.3% QoQ), aiding other income (ex-trading) growth of 15.4% YoY and 5% QoQ.

Pre-provisioning operating profit (PPoP)

- C/I ratio remained elevated at 39.6% vs. 37% in Q3FY22 and 39.2% in Q2FY23 as a result of sustained investment in branches and employee addition. Further, a Rs 2.5bn-3bn provision towards ESOPs boosted opex.
- We believe the bank's aggressive approach towards branch addition (added 684 branches during the quarter and 841 year-to-date with 600 more in the pipeline) will keep the bank's short-term C/I ratio elevated.
- PPoP grew 13.4% YoY (9.4% QoQ); however, core PPoP rose by a healthy 19% YoY vs 11.7% a year ago and 16.6% in Q2FY23.

Asset quality

- The bank's asset quality remained healthy with GNPA and NNPA ratio sequentially flat at 1.23% and 0.33% respectively, with PCR of 73.2%.
- Slippages (annualised) during the quarter stood at 1.8% to Rs 66bn (1.4% to Rs 53bn excluding the agriculture segment). Covid-based restructured loans declined to 42bps of loans at Rs 64bn vs. 62bps in the prior quarter.
- Total provisions including floating (Rs 14.5bn), contingent (Rs 230.9bn) and general (Rs 66bn) provisions stood at 166% of GNPA, which provides an additional cushion against the mandated requirement.
- Credit cost improved to 74bps (vs. 87bps/94bps in Q2FY23/Q3FY22).

Subsidiaries

- For Q3FY23, HDB Financial Services posted PAT of Rs 5bn (+65%/6.3% YoY/QoQ with AUM of Rs 651bn (+7.6% YoY). Gross stage-3 loans improved substantially by 120bps to 3.7% of loans, while CAR/tier I capital was healthy at 20.5%/16%.
- HDFC Securities' revenue fell 6% YoY to Rs 5bn while PAT dropped 21% YoY to Rs 2bn.

Earnings call takeaways

Macro indicators

- High-frequency indicators suggest that the domestic economy held up well in Q3FY23.
- GST collections remained robust with an increase in manufacturing & service PMI.
- HDFCB's management estimates domestic GDP growth at 7% for FY24.

P&L and balance sheet

- Retail CASA grew 14% YoY with savings accounts up 22%. The retail segment constitutes 70% of total current accounts, which grew 14% YoY. Wholesale current account deposits declined 4% YoY.
- The bank remains focused on mobilising granular deposits and garnered Rs 670bn in retail deposits during the quarter.
- Retail deposits constitute 84% of the bank's total deposits.
- The liquidity coverage ratio (LCR) ratio stood at ~113%.
- NIM of 4.3% includes 5-6bps due to interest on an income tax refund. NIM movement will depend on the loan mix; however, the bank expects margins to witness a positive bias with controlled cost measures.
- Retail fees contributed 93% of total fee income.
- Employee expenses include Rs 2.5bn-3bn related to ESOPs.

Asset quality

- GNPA includes standard accounts of ~17bps, which were added because other facilities of borrowers are NPAs.
- Excluding the agriculture segment, the GNPA ratio stood at 100bps vs. 104bps in Q3FY22 and 103bps in Q2FY23.
- Recoveries and upgrades along with write-offs remained at Rs 31bn each. Sale of NPA was at Rs 2bn.
- The restructured book stood at Rs 64bn (42bps of loans) and additional exposure of these borrowers was at Rs 11bn (8bps of loans), totalling to 50bps of loans.
- Out of the total contingent provision of Rs 108bn, Rs 2bn was utilised during the quarter.

Business & Networks

- Wealth management is now offered from 691 locations, including 189 added during the quarter.
- HDFCB offers gold loans through 3,938 branches – up 3x since FY22.
- In terms of employee base, the bank hired 5,863 people in Q3 and 32,478 in the past one year.
- A total of 2.6mn new liability customers were added in Q3, up 12% YoY.
- The bank added 1.2mn cards in Q3, taking the total to 17mn. Cards spending grew 27% YoY backed by higher consumer spends. The revolve rate has not picked up and remained at 65-70% of pre-Covid levels.
- The bank is witnessing demand from sectors such as NBFCs, PSUs, retail and infrastructure.
- A National Company Law Tribunal (NCLT) hearing date for the upcoming merger has been finalised for 27 Jan 2023.

Subsidiary performance

HDB Financials

- The customer base stands at 11.2mn with ~2.6mn added in the past one year.
- 73% of loans are secured in nature with Stage-3 loans at 3.73%.
- Overall PCR stands at 53% with 54%/85% on secured/unsecured book.
- ROA was at 3.1% and ROE at 18.8%.

HDFC Securities

- The company added 0.9mn new clients in the past year for a total of 4.3mn.
- 93% of active clients are using the digital platform.

Fig 3 – Loan portfolio trends

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	Mix (%)
Retail Loans										
Home Loans	7,22,350	7,57,540	7,89,920	8,30,560	8,82,490	9,30,500	9,75,930	23.5	4.9	6.1
Loan Against Property	5,16,960	5,44,260	5,77,360	6,22,480	6,51,160	6,93,130	7,24,360	25.5	4.5	4.6
Auto Loans	9,19,100	9,51,950	9,64,260	10,04,630	10,40,030	10,87,880	11,24,420	16.6	3.4	7.1
Two Wheelers	95,260	97,130	92,880	92,880	91,950	95,970	97,590	5.1	1.7	0.6
Gold Loans	82,130	81,090	81,980	83,500	88,080	94,340	1,00,420	22.5	6.4	0.6
Personal Loans	12,04,660	12,63,580	13,33,990	14,01,270	14,79,280	15,48,200	16,46,410	23.4	6.3	10.2
Payment products	6,30,920	6,77,830	7,33,050	7,67,570	8,01,420	8,19,660	8,33,140	13.7	1.6	5.4
Other retail Loans	4,11,370	4,56,040	4,84,070	5,14,790	5,44,400	5,35,800	5,63,740	16.5	5.2	3.5
Total Retail Loans	45,82,750	48,29,420	50,57,510	53,17,680	55,78,810	58,05,480	60,66,010	19.9	4.5	38.1
Commercial & Rural Banking										
Emerging Corporates	12,34,900	12,96,120	38,41,950	14,78,350	15,27,810	16,45,580	17,06,230	(55.6)	3.7	10.8
Business Banking	14,67,690	15,98,070	-	19,15,990	19,91,680	21,80,140	23,20,490	-	6.4	14.3
Commercial Transportation	6,59,690	6,96,010	-	8,07,570	8,45,370	9,18,900	9,96,840	-	8.5	6.0
Agriculture	5,01,050	5,60,040	5,60,310	6,46,450	6,15,790	7,02,780	7,09,120	26.6	0.9	4.6
Total Commercial Rural Banking	38,63,330	41,50,240	44,02,260	48,48,360	49,80,650	54,47,400	57,32,680	30.2	5.2	35.8
Corporate & Other Wholesale	31,46,210	31,24,230	32,61,820	36,40,110	36,39,390	39,67,790	39,22,540	20.3	(1.1)	26.1
Total Gross Loan	1,15,92,290	1,21,03,890	1,27,21,590	1,38,06,150	1,41,98,850	1,52,20,670	1,57,21,230	23.6	3.3	100

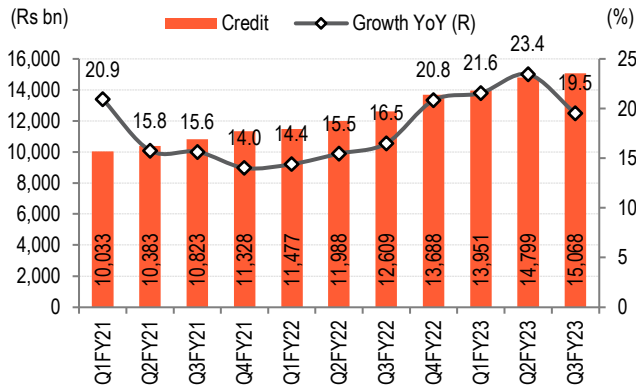
Source: Company, BOBCAPS Research

Fig 4 – Portfolio mix

(%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (bps)	QoQ (bps)
Retail Loans									
Home Loans	6.2	6.3	6.2	6.0	6.2	6.1	6.2	0	9
Loan Against Property	4.5	4.5	4.5	4.5	4.6	4.6	4.6	7	5
Auto Loans	7.9	7.9	7.6	7.3	7.3	7.1	7.2	(43)	0
Two Wheelers	0.8	0.8	0.7	0.7	0.6	0.6	0.6	(11)	(1)
Gold Loans	0.7	0.7	0.6	0.6	0.6	0.6	0.6	(1)	2
Personal Loans	10.4	10.4	10.5	10.1	10.4	10.2	10.5	(1)	30
Payment products	5.4	5.6	5.8	5.6	5.6	5.4	5.3	(46)	(9)
Other retail Loans	3.5	3.8	3.8	3.7	3.8	3.5	3.6	(22)	7
Total Retail Loans	39.5	39.9	39.8	38.5	39.3	38.1	38.6	(117)	44
Commercial & Rural Banking									
Emerging Corporates	10.7	10.7	30.2	10.7	10.8	10.8	10.9	(1935)	4
Business Banking	12.7	13.2	0.0	13.9	14.0	14.3	14.8	1476	44
Commercial Transportation	5.7	5.8	0.0	5.8	6.0	6.0	6.3	634	30
Agriculture	4.3	4.6	4.4	4.7	4.3	4.6	4.5	11	(11)
Total Commercial Rural Banking	33.3	34.3	34.6	35.1	35.1	35.8	36.5	186	68
Corporate & Other Wholesale	27.1	25.8	25.6	26.4	25.6	26.1	25.0	(69)	(112)
Total Gross Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

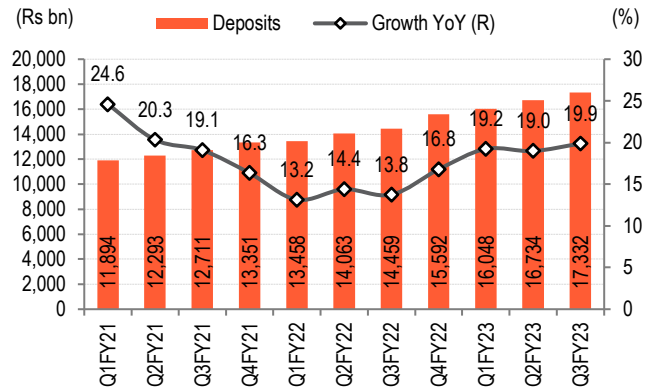
Source: Company, BOBCAPS Research

Fig 5 – Credit grew 19.5% YoY supported by CRB



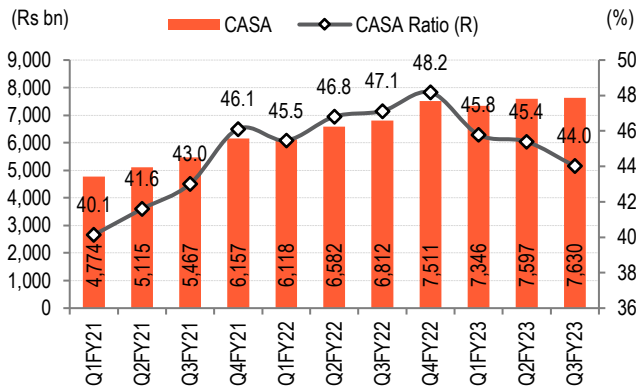
Source: Company, BOBCAPS Research

Fig 6 – Deposit grew 20% YoY



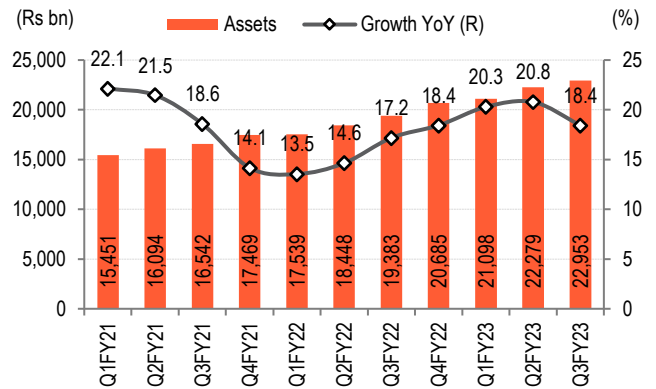
Source: Company, BOBCAPS Research

Fig 7 – CASA growth slows



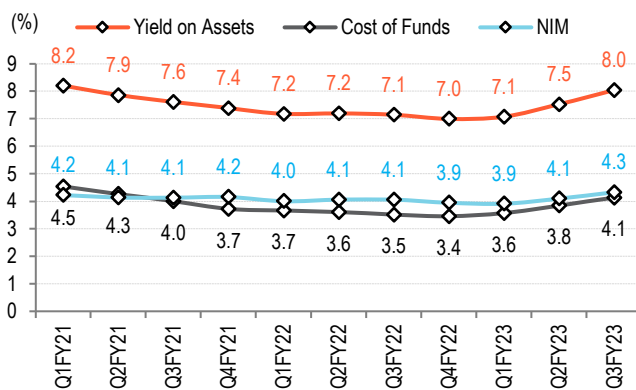
Source: Company, BOBCAPS Research

Fig 8 – Assets grew by 18.4% YoY



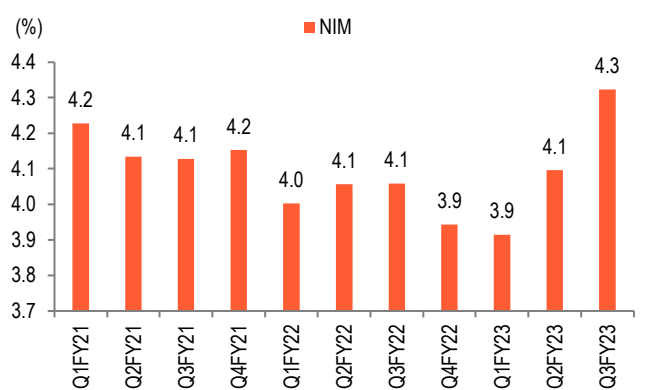
Source: Company, BOBCAPS Research

Fig 9 – Deposit repricing lagged loan repricing



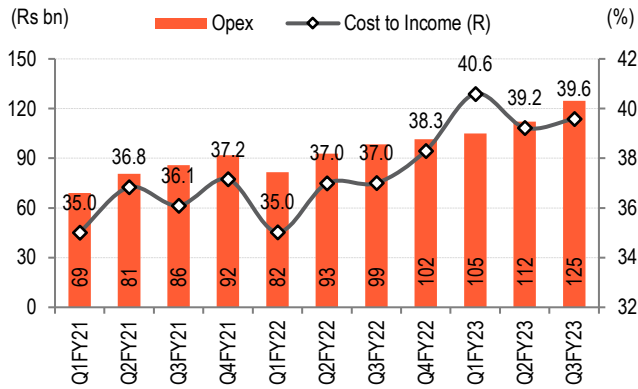
Source: Company, BOBCAPS Research

Fig 10 – Elevated NIM backed by slower deposit repricing



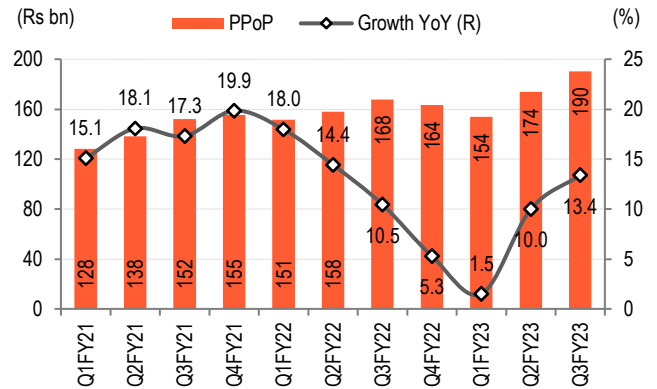
Source: Company, BOBCAPS Research

Fig 11 – Continuous branch expansion kept C/I elevated



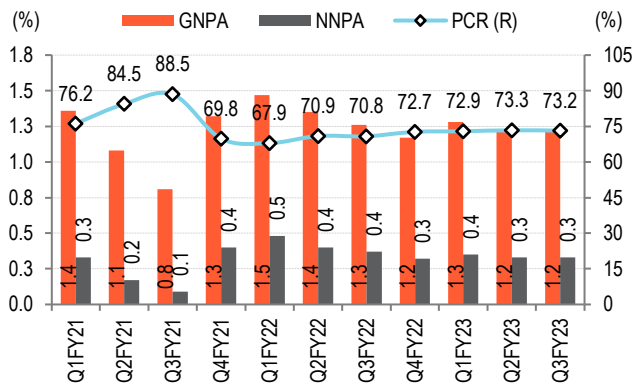
Source: Company, BOBCAPS Research

Fig 12 – PPOp growth at 13.4% YoY



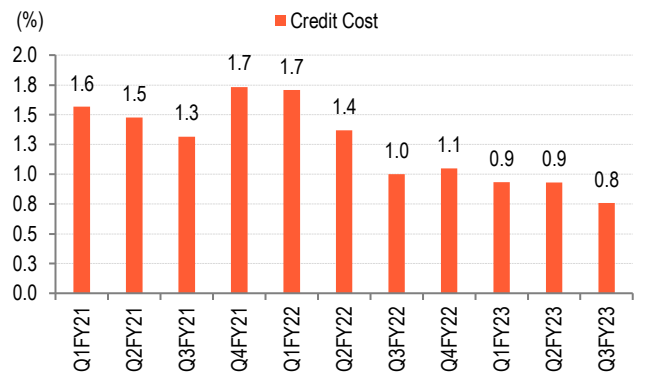
Source: Company, BOBCAPS Research

Fig 13 – Asset quality remained stable QoQ



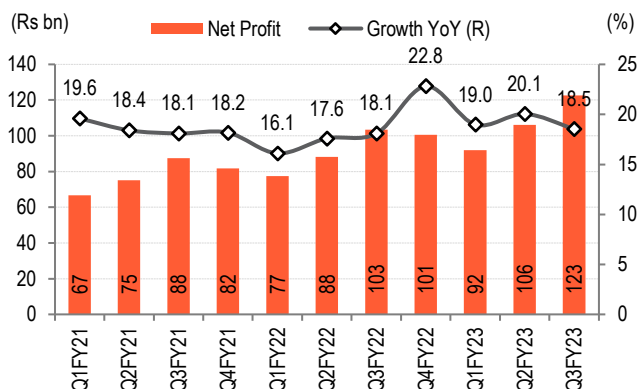
Source: Company, BOBCAPS Research

Fig 14 – Credit cost continued its downward trajectory



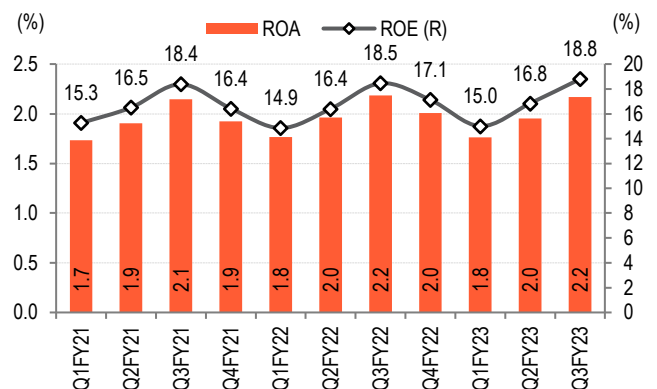
Source: Company, BOBCAPS Research

Fig 15 – PAT grew 18.5% YoY supported by higher topline



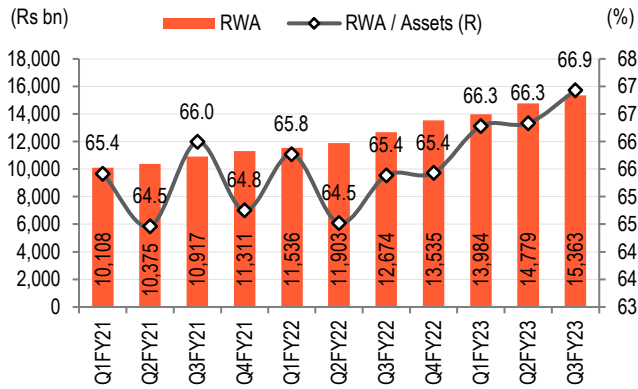
Source: Company, BOBCAPS Research

Fig 16 – Maintained its high return ratios



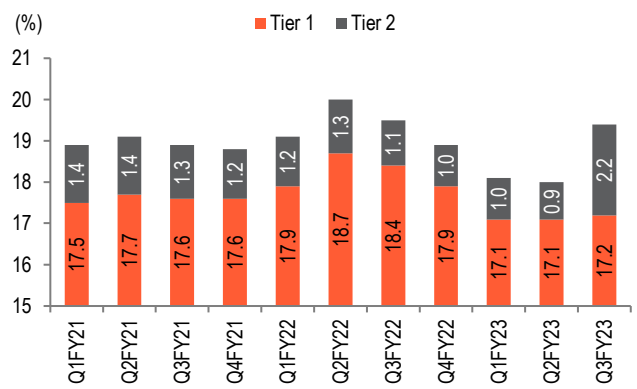
Source: Company, BOBCAPS Research

Fig 17 – RWA/Asset ratio remained stable at 67%



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

Fig 18 – Bank is well capitalised with CAR of 19.4%



Source: Company, BOBCAPS Research

Valuation methodology

HDFCB's Q3FY23 performance remained healthy on the back of strong credit growth and lower provisions. We expect the bank to deliver a credit CAGR of 20% and a 19% CAGR in assets during FY22-FY25. Robust growth in credit is likely to be driven by the CRB and retail segments with some moderation in corporate business. Despite a probable reversal in the interest rate regime in H2FY24, we believe the bank can maintain NIM above 4% supported by a healthy CASA mix and change in loan mix towards retail (retail/wholesale at 45:55 currently).

We expect growth in non-interest income to remain healthy (17% CAGR over FY22-FY25E vs. 7% YoY growth in FY23E) supported by strong fee income (18.5% CAGR). The bank's strategy towards branch expansion and employee addition will keep its C/I ratio elevated, albeit with some moderation likely in FY25. On the back of strong topline growth coupled with gradual recovery in non-core income, we expect HDFCB's PPOP to post an 18% CAGR over our forecast period

Barring any incremental shock on asset quality, the bank is likely to maintain a healthy asset base (GNPA/NNPA/PCR at 1.2%/0.37%/70% in FY25E). Further, a conservative strategy towards asset quality with buffer provisioning (floating, contingent and general provisions constitute 166% of GNPA) will keep credit cost under control and help improve profitability. Additionally, we expect further moderation in the restructured book, which currently stands at 42bps of loans.

In terms of CAR, HDFCB is well capitalised at 19.4% wherein CET 1 stands at 17.2%. We do not foresee major additions to risk weighted assets (current RWA/asset ratio at 67%), which is likely to keep CAR at a healthy level of 18.2%/17.4% in FY24/FY25. Strong capitalisation would provide better potential to garner higher business share. Given tight cost control, consistent growth in other income coupled with lower provisioning requirement, HDFCB is likely to sustain growth momentum in return ratios. We bake in a 19.5% PAT CAGR over FY22-FY25 with ROA/ROE of 2%/17.3% in FY25.

Considering our strong growth outlook for the bank, we assume coverage with a BUY rating and an SOTP-based TP of Rs 2,000, set at 3.3x FY24E ABV plus a value of Rs 50/sh for the bank's subsidiaries.

Fig 19 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Advances (Growth YoY %)	20.8	20.4	20.7	21
Net Interest Income (Growth YoY %)	11.0	19.8	18.5	22.2
PPoP (Growth YoY %)	11.7	10.7	20.0	23.7
PAT (Growth YoY %)	18.8	19.5	16.0	23.5
NIM (%)	4.00	3.97	3.95	4.02
GNPA (%)	1.17	1.23	1.21	1.21
CAR (%)	19.3	19.5	18.2	17.4

Source: Company, BOBCAPS Research

Fig 20 – Valuation summary

Business	Valuation	Holdings	Rs/Share
HDFC Bank	3.3x FY24E ABV	100	1,950
HDB Financials	1.3x FY24E ABV	94.9	29
HDFC Securities	12x FY24E EPS	95.6	21
Total			2,000

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- elongation of the merger process of HDFC Ltd coupled with no relaxation on statutory requirements, and
- a weak demand environment, leading to overall slowdown in credit offtake.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest income	6,48,796	7,20,096	8,62,543	10,22,150	12,48,787
NilI growth (%)	15.5	11.0	19.8	18.5	22.2
Non-interest income	2,52,049	2,95,099	3,14,901	3,92,262	4,74,380
Total income	9,00,845	10,15,195	11,77,445	14,14,412	17,23,166
Operating expenses	3,27,226	3,74,422	4,68,086	5,63,161	6,70,120
PPOP	5,73,618	6,40,773	7,09,358	8,51,251	10,53,046
PPOP growth (%)	17.7	11.7	10.7	20.0	23.7
Provisions	1,57,029	1,50,618	1,22,856	1,66,765	2,07,849
PBT	4,16,590	4,90,155	5,86,502	6,84,486	8,45,197
Tax	1,05,425	1,20,541	1,44,975	1,72,490	2,12,990
Reported net profit	3,11,165	3,69,614	4,41,527	5,11,995	6,32,208
Adjustments	0	0	0	0	0
Adjusted net profit	3,11,165	3,69,614	4,41,527	5,11,995	6,32,208

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	5,513	5,546	5,577	5,577	5,577
Reserves & surplus	20,31,695	23,95,384	30,09,823	34,04,060	38,97,182
Net worth	20,37,208	24,00,929	30,15,400	34,09,637	39,02,758
Deposits	1,33,50,602	1,55,92,174	1,87,88,570	2,27,34,170	2,73,58,300
Borrowings	13,54,873	18,48,172	20,36,686	22,81,088	27,12,214
Other liab. & provisions	7,26,022	8,44,075	7,95,559	9,66,279	12,98,959
Total liab. & equities	1,74,68,705	2,06,85,350	2,46,36,214	2,93,91,174	3,52,72,231
Cash & bank balance	11,94,704	15,23,269	12,80,476	15,82,016	19,21,046
Investments	44,37,283	45,55,357	55,26,360	64,63,512	76,56,922
Advances	1,13,28,366	1,36,88,209	1,64,80,604	1,98,92,089	2,40,69,428
Fixed & Other assets	5,08,352	9,18,515	13,48,775	14,53,556	16,24,834
Total assets	1,74,68,705	2,06,85,351	2,46,36,214	2,93,91,174	3,52,72,231
Deposit growth (%)	16.3	16.8	20.5	21.0	20.3
Advances growth (%)	14.0	20.8	20.4	20.7	21.0

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	56.6	66.8	79.4	91.8	113.4
Dividend per share	0.0	6.5	18.2	21.1	24.9
Book value per share	369.5	432.9	540.7	611.4	699.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	28.0	23.7	20.0	17.3	14.0
P/BV	4.3	3.7	2.9	2.6	2.3
Dividend yield (%)	0.0	0.4	1.1	1.3	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest income	4.0	3.8	3.8	3.8	3.9
Non-interest income	1.5	1.5	1.4	1.5	1.5
Operating expenses	2.0	2.0	2.1	2.1	2.1
Pre-provisioning profit	3.5	3.4	3.1	3.2	3.3
Provisions	1.0	0.8	0.5	0.6	0.6
PBT	2.5	2.6	2.6	2.5	2.6
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	8.4	8.4	8.8
ROE	16.6	16.7	16.3	15.9	17.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Net interest income	15.5	11.0	19.8	18.5	22.2
Pre-provisioning profit	17.7	11.7	10.7	20.0	23.7
EPS	17.8	18.1	18.8	15.6	23.5
Profitability & Return ratios (%)					
Net interest margin	4.2	4.0	4.0	4.0	4.0
Fees / Avg. assets	1.0	1.0	1.0	1.0	1.0
Cost-Income	36.3	36.9	39.8	39.8	38.9
ROE	16.6	16.7	16.3	15.9	17.3
ROA	1.9	1.9	1.9	1.9	2.0
Asset quality (%)					
GNPA	1.3	1.2	1.2	1.2	1.2
NNPA	0.4	0.3	0.3	0.4	0.4
Slippage ratio	1.6	2.4	1.9	2.2	2.3
Credit cost	1.1	0.8	0.8	0.9	0.9
Provision coverage	69.8	72.7	72.5	71.0	70.0
Ratios (%)					
Credit-Deposit	84.9	87.8	87.7	87.5	88.0
Investment-Deposit	33.2	29.2	29.4	28.4	28.0
CAR	18.8	19.3	19.5	18.2	17.4
Tier-1	17.6	18.3	17.8	16.7	15.9

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

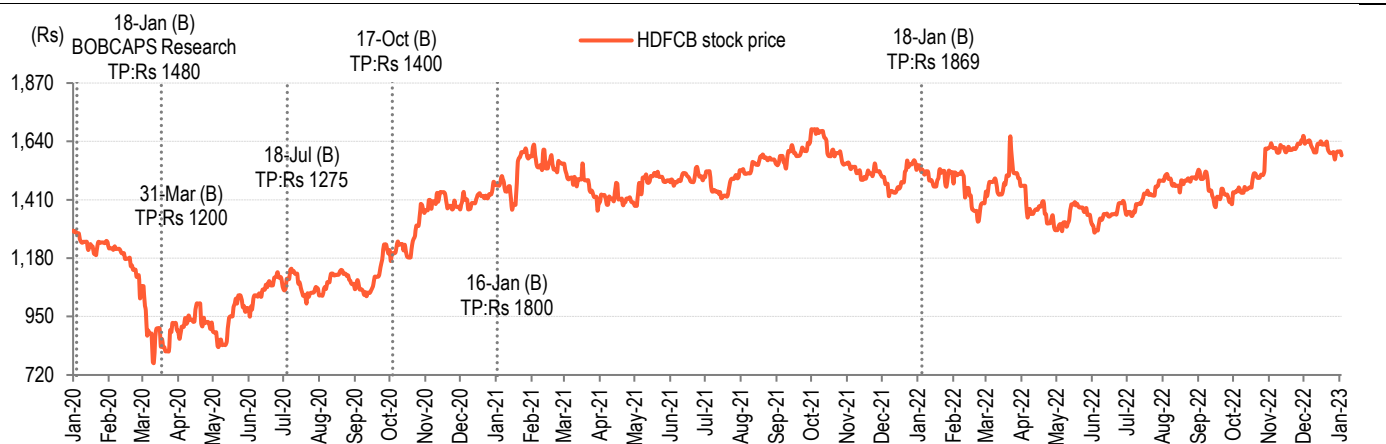
HOLD – Expected return from -6% to +15%

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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