

Axis Annual Analysis 2022



HDFC Bank Ltd.

Resilient Performance Amidst COVID-19; Eyeing Aggressive Growth!

Summary

HDFC Bank (HDFCB) demonstrated resilience during a challenging FY22 and delivered a strong operating performance in FY22 despite COVID-related headwinds. It exited the year with a strong RoA/RoE of 1.9%/16.5%. The liability franchise continued to scale up with growth primarily driven by CASA deposits (+22% YoY) and the cost of deposits falling to a multi-year low of 3.4% in FY22. Credit growth picked up to 21% (vs. mid-teens growth over 9MFY22) and was primarily driven by Corporate and CRB segments, while retail growth lagged. Asset quality continued to remain top-notch. HDFCB's annual report is themed around 'leading responsibly' with a focus deepening on strengthening customer relations and tech advancements.

Key Highlights

- Financial Performance:** Though credit growth remained strong, it was largely driven by lower yielding segments, thereby weighing on NIMs. NIMs (calc.) were down ~17bps in FY22 and stood at 3.9% vs. 4.1% in FY21. NII grew by 11% YoY to Rs 720 Bn and the fee income, which grew by 21% YoY, supported the non-interest income growth. The bank's treasury income, however, remained a drag. Opex grew by 14% YoY, while the C-I Ratio remained steady at 36.9% vs. 36.3% in FY21. PPOP grew by 12% YoY. On a segmental basis, a 13% YoY drop in retail profitability (pre-tax) was offset by strong growth in wholesale segment profitability which improved by 44% YoY. FY22 was the 2nd consecutive year wherein the bank's wholesale segment profitability was better than that of the retail segment. Backed by moderating provisions, overall profitability improved as PAT growth stood at 19% YoY.
- Asset Quality:** Owing to COVID 2.0 headwinds, FY22 slippages stood elevated at Rs 268.6 Bn (slippage ratio of 2.1% vs. normalised slippage ratio of ~1.7%). However, higher slippages were offset by better recoveries, upgrades, and write-offs of Rs 258.1 Bn. Resultantly, GNPA remained best-in-class and improved to 1.17% from 1.32% in FY21. On a segmental basis, Retail/CRB/Corporate NPAs improved by 5/20/29bps to 1.17/1.67/0.53% in FY22. The restructured book stood at Rs 159 Bn (115bps of total advances)
- Operational Review:** Over the past couple of years, the wholesale banking segment has outpaced retail banking, which has resulted in concentration ratios (in terms of exposure and Top-20 borrowers) inching up marginally. The concentration of Top-20 advances/exposure stood at 13.8/14.4% vs. 12.9/13.7% in FY21. However, the concentration of Top-20 depositors continued to improve by ~20bps and stood at 3.9%. The attrition rate was relatively higher at ~25% in FY22 vs. ~15% in FY21 with higher attrition amongst the sales officers and non-supervisory staff.
- Key Competitive Strengths:** (a) Market leadership position in terms of both credit and deposits; (b) Best-in-Class Asset Quality highlighting HDFCB's strong underwriting capabilities; (c) Robust and Granular Liability Franchise, and (d) Well-diversified fee income profile with retail segment fees contributing ~94% of the total fee income.
- Growth Drivers:** (a) Merger with HDFC Ltd. to further strengthen the bank's leadership position as growth run-way remains fairly large; (b) Aggressive branch expansion plan to drive growth, (c) Commercial and Rural Banking to be key growth enabler given the vast untapped opportunity.

Outlook & Valuation

The bank's advances growth was largely driven by the corporate segment as HDFCB exited FY22. The management commentary on a turnaround in the retail segment contributing meaningfully to overall credit growth is a key positive and should also support NIMs moving forward. However, Opex is expected to remain elevated owing to aggressive branch expansion and investment towards tech advancements, talent acquisition, and business expansion. With the asset quality headwinds well-managed and largely behind, credit cost trends are likely to remain benign. **While a strong operational performance and best-in-class return ratios underpin premium valuations for HDFCB, the uncertainty around the merger (in terms of possible regulatory hurdles) overshadow the business performance and we believe is weighing on the stock's performance. However, backed by expectations of strong business growth and reasonable valuations (the stock currently trades at ~2.5x FY24E ABV vs. long-term avg. of 3x P/ABV), we recommend BUY on the stock with a target price of Rs 1,840/share, valuing the core bank at 3.2x FY24E ABV and assigning a value of Rs 71 to the subsidiaries.**

Key Financials (Standalone)

(Rs. Bn)	FY22	FY23E	FY24E	FY25E
NII	720	854	1,021	1,196
PPOP	641	716	877	1,029
Net Profit	370	427	522	606
EPS (Rs.)	66.7	77.1	94.2	109.3
ABV	418.1	478.7	552.2	637.9
P/ABV	3.3	2.9	2.5	2.2
NNPA (%)	1.9	1.9	2.0	1.9
ROA (%)	0.3	0.3	0.3	0.3

Source: Company, Axis Research

(CMP as of Jul 22, 2022)

CMP (Rs)	1,393
Upside /Downside (%)	32%
High/Low (Rs)	1724/1272
Market cap (Cr)	7,73,770
Avg. daily vol. (6m) Shrs.	96,65,774
No. of shares (Cr)	554.6

Shareholding (%)

	Jun-22	Mar-22	Dec-21
Promoter	25.8	25.8	25.8
FII	32.3	35.6	37.5
MFs / UTI	18.0	16.3	15.3
Banks / FI	0.8	0.6	2.9
Others	23.2	21.7	18.5

Financial & Valuations

Y/E Mar (Rs. Bn)	FY23E	FY24E	FY25E
NII	854	1,021	1,196
PPOP	716	877	1,029
Net Profit	427	522	606
EPS (Rs.)	77.1	94.2	109.3
ABV	478.7	552.2	637.9
P/ABV	2.9	2.5	2.2
NNPA (%)	1.9	2.0	1.9
ROAA (%)	0.3	0.3	0.3

Change in Estimates (%)

Y/E Mar	FY23E	FY24E
NII	-	-
PPOP	-	-
PAT	-	-

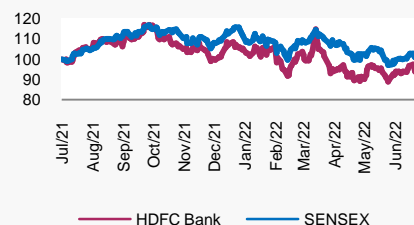
ESG disclosure Score**

Environmental Disclosure	40.1
Social Disclosure Score	51.6
Governance Disclosure Score	79.8
Total ESG Disclosure Score	57.2

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2021 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Company Overview

HDFC Bank (HDFCB) is India's largest private sector bank with a market share of ~11.5/9.5% in terms of advances/deposits in FY22. The bank has registered a healthy advances/deposit growth of 20/19% CAGR over FY17-22 thereby helping the bank maintain its market leadership position. HDFCB operates its business through a strong national network of 6,342 branches spread across urban and rural markets (~50% of the branch network is SURU branches) and 18,130 ATMs (incl. cash deposit and withdrawal machines). The bank caters to mass and affluent customers in deposit and transactional banking services. It offers a wide range of products across its wholesale and retail banking franchises.

FY22 Performance Round-up:

- Deepening Reach** – HDFC Bank's customer base stood at 7.1 Cr aided by a strong distribution network of 6,342 branches and 18,130 ATMs (incl. cash deposit and withdrawal machines). Over the past 5 years, HDFCB's customer base has grown at ~12% CAGR aided by a ~6% CAGR growth in no. of branches and primarily from the SURU markets. The semi-urban and rural markets (SURU) account for ~50% of the total branches. The bank made a renewed push in the semi-urban and rural markets as rising income levels and aspirations of rural customers are leading to demand better quality financial products and services.
- Credit growth strong, though driven by low-yielding high-quality segments** – Post weathering the COVID-related headwinds, HDFCB regained its growth momentum in terms of credit with the retail segment registering a growth of ~14% YoY, while the corporate segment grew by ~27% YoY in FY22. In the retail segment, growth was primarily driven by Home Loans and the unsecured book. HDFCB's market share in terms of advances stood at 11.5%, an improvement of 115bps YoY. With a focus largely on high-quality lending this is generally a low-yielding segment, NIMs moderated marginally by ~10bps to 4.1% vs. 4.2%.
- Deposit Franchise remains robust** – Deposit growth was strong at ~17% YoY driven by robust growth of 22% in CASA Deposits. CASA Ratio resultantly improved to 48.2% in FY22 vs. 46.1% in FY21. The liability franchise remains granular with retail deposits comprising ~81% of the total deposit base in FY22 vs. 79% in FY21. The bank enjoys a market share of 9.5% in terms of deposits.
- Concentration Ratios delivered a mixed performance** – HDFCB's concentration ratio in terms of deposits has improved from 4.1% in FY21 to 3.9% in FY22. Concentration in terms of advances (Top-20) increased from 12.9% in FY21 to 13.8% in FY22. We believe this is owing to the strong growth in the wholesale segment. Moreover, RWA remained at comfortable levels at 65% of total assets. Capital adequacy too remained stable at ~18% in FY22.
- Payment business leadership maintained** – HDFCB's payments business exhibited a robust recovery post lifting of the embargo on Aug'21. While the restriction on the issuance of new cards contained the Cards-in-Force (CIF) growth in the initial part of FY22, spends continued to remain strong. However, the bank lost market share in terms of CIF by ~169bps to 22.5% vs. 24.5% in FY21. Despite a strong 32% YoY growth in spends, HDFCB lost market share in terms of spends by ~459bps to 26.3% vs. 30.9% in FY21. This was primarily on account of increasing competitive intensity from other private banks. However, HDFCB continued to maintain its market leadership position. Post easing of restrictions, supported by a slew of new launches, the bank revived its growth momentum and improved its business momentum in terms of new customer additions aiding CIF growth and spends.
- Resilient Asset Quality despite COVID challenges** – HDFCB managed to maintain its asset quality despite COVID 2.0 headwinds. GNPA stood at 1.17% vs. 1.32% in FY21. Credit costs during the year moderated to 1.2% vs. 1.5% in FY21. Even as slippages remained elevated at ~2.1%, strong recoveries and upgrades supported asset quality improvement. PCR continued to remain healthy at ~73% in FY22, while the bank carried floating provisions of Rs 97 Bn (0.5% of advances). On a segmental basis, asset quality trends remained positive for all business segments (Industry, services and personal) except Agri, wherein GNPA inched up to 4.3% vs. 4% in FY21.
- The restructured book under control** – In the absence of a blanket moratorium as was offered during COVID 1.0, HDFCB's restructured book peaked at 1.4% vs. 0.7% during COVID 1.0. At the end of FY22, restructured book tapered to 1.15% and stood at Rs 157 Bn. ~41% of the loans are secured while the balance 59% of the loans are unsecured. In the unsecured portion, ~84% of the customers have a good credit bureau score or were non-delinquent at the time of restructuring. The bank expects the slippages from the restructured book to be at manageable levels of 10-20bps over the repayment period.

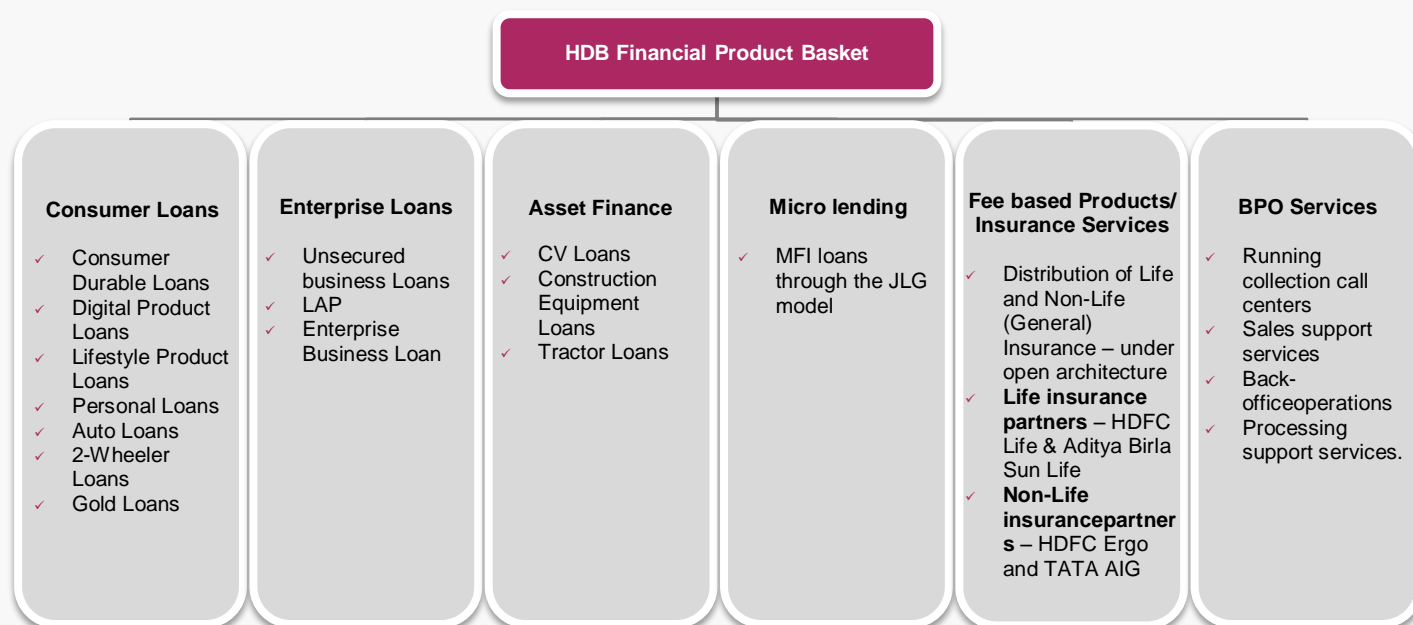
Key Subsidiary Performance

A. HDB Financial Services (HDB)

Incorporated in 2007, HDB is a leading NBFC that caters to the evolving needs of its customers by re-imagining opportunities and fulfilling their aspirations. HDB offers a comprehensive suite of products and service offerings that are tailor-made to suit its customers' requirements, including first-time borrowers and the under-served segments. It has a strong network of over 1,374 branches spread across 989 cities/towns. HDFC Bank holds a 95% stake in HDB Financial Services Ltd.

As the pandemic-related headwinds recede, the economic recovery is likely to sustain. HDB Financials diversified product suite, its digital infrastructure and its broad reach through the country are well positioned to chart a growth path for FY23

Exhibit 1: HDB Financial Services Product Portfolio



Source: Company, Axis Securities

Exhibit 2: HDB Financial Operational & Financial Performance Highlights

Particulars	FY21	FY22	Change	Comments
Operational Metrics				
Disbursements	249.9	290.3	16%	With the waning impact of COVID 2.0, disbursements picked up momentum in H2FY22.
AUM	615.6	614.4	0%	Though disbursement growth remained healthy, higher repayments resulted in AUM growth remaining flat
Branches	1,319	1,374	4%	

Source: Company, Axis Securities

Exhibit 3: HDB Financials Financial Performance

Particulars	FY21	FY22	Change	Comments
Financial Performance				
NII	46.0	50.4	9%	Muted AUM growth and higher slippages resulted in interest income remaining muted. However, NII was supported by improving CoF
PPOP	35.7	38.1	7%	Tepid NII growth along with higher Opex kept PPOP growth muted
Provisions	30.7	24.7	-20%	With asset quality stress subsiding over H2FY22, provisions moderated
PAT	3.9	10.1	158%	Moderating provisions was the key driver for improving profitability

Source: Company; Axis Securities

Exhibit 4: HDB Financial Services - Asset Quality & Profitability/Efficiency Metrics

Particulars	FY20	FY21	Change	Comments
Asset Quality Metrics				
GNPA	27.6	30.6	11%	COVID 2.0 related headwinds resulted in asset quality deterioration. However, the GNPA ratio improved significantly from its peak of 7.8%
GNPA (%)	3.9%	5.0%	109bps	Same as above
NNPA	18.9	14.0	-26%	Shoring up of provisions resulted in NNPA moderation
NNPA (%)	3.2%	2.4%	-81bps	Same as above
PCR (%)	31.7%	54.1%	2245bps	
Slippage	37.6	39.3	4%	COVID 2.0 headwinds resulted in higher slippages
Slippage Ratio	6.3%	6.4%	13bps	
Efficiency & Profitability Ratios				
C-I Ratio	49.5%	52.2%	277bps	Improving business volumes resulted in an inch-up in Opex which grew by 19% YoY, driven by an 18% YoY increase in Employee expenses and 32% YoY increase in other Opex
CRAR (%)	18.9%	20.2%	133bps	Capital adequacy remains healthy
Tier I (%)	13.4%	15.2%	178bps	Same as above
Networth	84.5	95.4	13%	
RoA (%) (Calc.)	0.6%	1.6%	99bps	Moderating credit costs supported PAT growth thereby aiding RoA expansion
RoE (%) (Calc.)	4.8%	11.2%	649bps	

Source: Company; Axis Securities

B. HDFC Securities

HDFC securities offers investments and direct trading services through buying and selling of equities, along with currency derivatives, mutual funds, NCDs, fixed deposits, bonds, basket investing, global investing, PMS/AIF and more – to suit the diverse investment needs of Indians. With robust understanding of the personal finance space, HDFC Securities specializes in asset allocation, portfolio structuring and realignment, and goal-based investing. Currently, HDFCB holds 96% stake in the company.

Exhibit 5: HDFC Securities Financial and Operational Performance Highlights

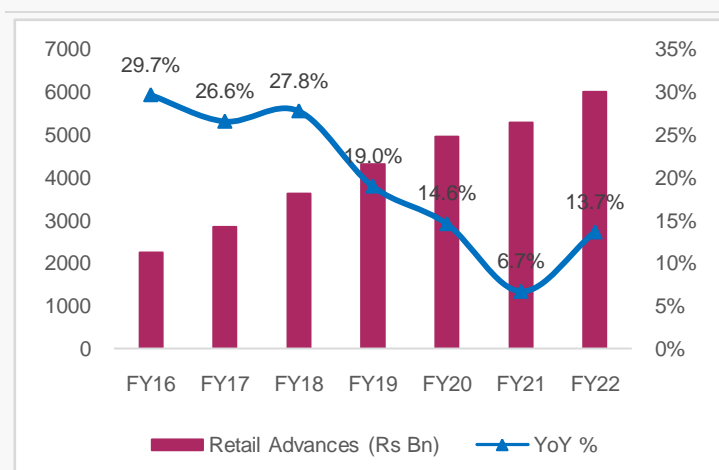
Particulars	FY21	FY22	Change	Comments
Financial & Operational Performance				
Customer Base	27.3	38.3	40%	The customer additions across the broking industry have been strong in FY22, with customers primarily being from the new generation of investors.
Total Active Clients (Mn)	1.0	1.2	22%	The use of technology to simplify the customer journey across multiple touch points from KYC and on-boarding to ongoing trades helped in improving active clients
Digital Business Share	84%	86%	~100bps	
Revenue from Operations	13.7	19.8	44%	Buoyancy in markets aided revenue growth across segments
- of which are Broking Revenues	10.1	11.6	14%	The market remained buoyant in H1FY22, however with markets being volatile in H2FY22 broking revenues are likely to have been impacted, >50% of the broking revenues
Broking Revenue Mix	74%	58%	-1568bps	Robust performance on the distribution and interest income resulted in the broking income mix shrinking
EBITDA	10.0	15.0	50%	
EBITDA Margin (%)	73.4%	76.1%	278bps	
C-I Ratio	32.0%	34.0%	200bps	Opex growth of 47% resulted in C-I Ratio inching up as revenue growth was lower at 42% YoY
PAT	7.0	9.8	40%	
Networth	14.8	16.6	12%	
RoE (%)	47.5%	59.4%	1187bps	Improving profitability resulted in better RoE

Source: Company; Axis Securities

Key Operating Highlights

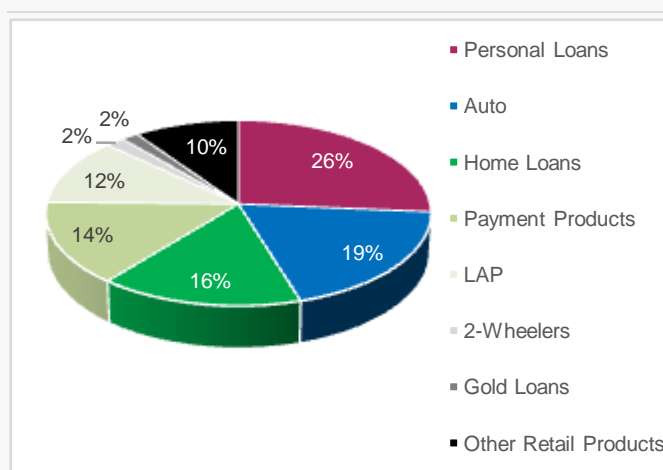
- New initiatives in retail lending** – The retail business operated under challenging circumstances, however with growth opportunities looking up as COVID-related headwinds receded, retail advances grew by ~14% YoY in FY20. In the retail segment, Personal Loans exhibited strong growth. The bank focused largely on the government segment as well as top corporates which resulted in improved portfolio quality in this segment. Post the success of 10-second Personal loans, Digital loans against shares, and Digital loans against Mutual funds HDFCB introduced an Xpress Car Loan for both existing customers as well as new bank customers to avail of loans in a seamless manner. The journey till disbursal will be completed within 30 minutes without any manual intervention. The bank continued to maintain its leadership position in the auto financing segment.

Exhibit 6: Retail Advances grow at 16% CAGR over FY17-22



Source: Company, Axis Securities

Exhibit 7: Break-up of Retail Advances (FY22)



- Wholesale Banking Business key growth driven in FY22** – With the wholesale business' focus on Government, PSUs, large and emerging corporates, and SMEs, the wholesale book recorded a robust growth of 26% YoY. During the year, HDFCB continued to focus on better-rated corporates adopting a prudent approach thereby enabling the bank to maintain its asset quality. In FY22, the bank refocused on dealing with MNCs and looked to benefit from the trend amongst corporates to deal with fewer banks. The bank not only acquired new customers but was also successful in improving the wallet share of existing customers. Thus, HDFCB gained market share in this segment by deepening its existing relationships along with leveraging its new product offerings adequately supported by its vast geographical reach, technology backbone, automated processes, suite of financial products and quick turnaround time.
- Payment Business leadership position intact** – With over 4.3 Cr debit cards, 1.7 Cr credit cards and ~28.9 Lk acceptance points, HDFCB is among the largest facilitators of cashless payments in the country. HDFCB's payments business recovered well post the lifting of the embargo in Aug'21. While the restriction on the issuance of new cards restricted the Cards-in-Force (CIF) growth in the initial part of FY22, spends continued to remain strong. However, the bank lost market share in terms of CIF by ~169bps to 22.5% vs. 24.5% in FY21. Despite a strong 32% YoY growth in spends, HDFCB lost market share in terms of spends by ~459bps to 26.3% vs. 30.9% in FY21. However, increasing competitive intensity from other private banks is a key reason for market share loss. However, HDFCB continued to maintain its market leadership position. Post easing of restrictions, supported by a slew of new launches the bank gathered growth momentum and improved its business momentum in terms of new customer additions aiding CIF growth and spends.

- Digital Initiatives**—Given the increasing use of digitization, in FY22 HDFCB rebuilt its acquisition journeys in partnership with a global technology leader in user experience. The bank has already built 10 new journeys and will be rapidly rolling out new journeys every 3 weeks. This includes journeys across account opening, loans and cards, covering both individual/MSME customers and both existing and new-to-bank customers. Currently, the share of digital in total transactions stands at ~93%. Going forward, HDFCB plans to launch more products under the Digital 2.0 program which includes launching a new payments platform for customers and for merchants and a wealth platform, in partnerships with new-age tech companies. A new Payzapp 2.0 is in the pipeline and will aim at providing a unified experience across contactless payments.

Exhibit 8: HDFCB's key initiatives towards a Digital Future-ready Bank

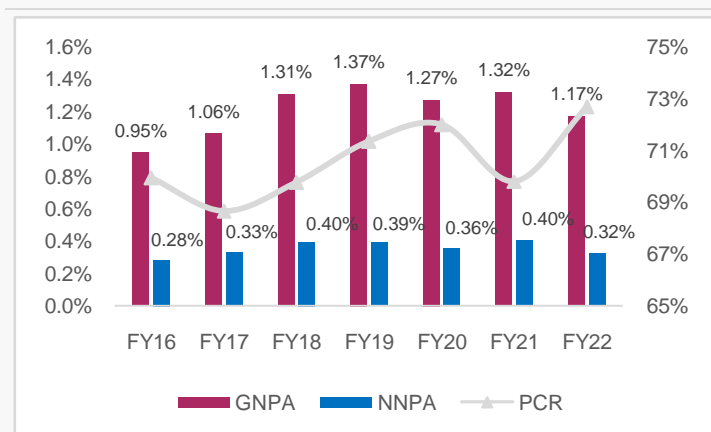


Source: Company; Axis Securities

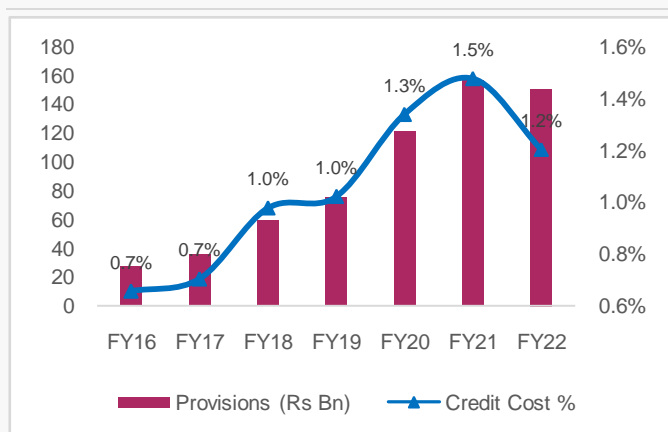
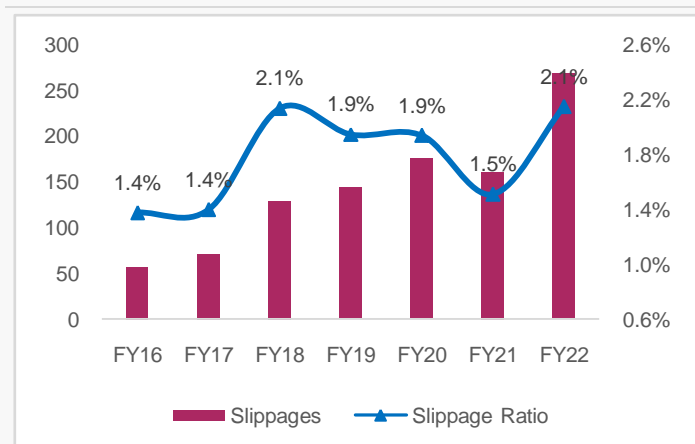
- Strong growth in the Government and Institutions Business** – FY22 was a significant year in the government and institutions business as HDFCB (a) Received mandates and began collecting customs duty, (b) Declared the single largest collector of direct taxes by the Controller General of Accounts, (c) Received mandates from the Railways Board for e-freight collections, and pension business, (d) Processed about 26% of the funds flowing from the Central Government to the states for development programs under the aegis of the Centrally sponsored schemes, Central sector schemes, and 15th Finance Commission, (e) Processed more than 130 Mn transactions using Government of India's Public Financial Management System to transfer funds to beneficiaries. The bank will look to leverage its extensive reach, intuitive technological solutions, deep network, and sustainable livelihood initiatives to maximise this opportunity. In FY22, HDFCB was recognised as one of the Top 5 banks in processing pay-outs, including direct benefit transfer under the single nodal agency constructed by the Ministry of Finance.

- Fee income traction remained strong** – In FY22, healthy fee income (~1.6% of loans) growth of 21% YoY supported non-interest income, while lower treasury income dented it. Strong fee income growth was supported by fees from the Third-party product (TPP) distribution which constituted 23% of total fee income. The bank distributes Life, General and Health Insurance, and Mutual Funds. In FY22, HDFCB has further strengthened its open architecture framework adopted for life insurance distribution with eight insurers through enhancements in digital journeys and product innovation with all the partners. In the general insurance space, the bank introduced new and innovative products and increased customer offerings to provide wider health insurance coverage during the pandemic. The bank has also strengthened its manpower across non-life insurers with an intent to grow the health insurance business.
- Asset Quality Pristine, Restructured book manageable** – HDFCB managed to maintain its asset quality despite COVID 2.0 headwinds. GNPA stood at 1.17% vs. 1.32% in FY21. Credit costs during the year moderated to 1.2% vs. 1.5% in FY21. Even as slippages remained elevated at ~2.1%, strong recoveries and upgrades supported asset quality improvement. PCR continued to remain healthy at ~73% in FY22, while the bank carried floating provisions of Rs 97 Bn (0.5% of advances).

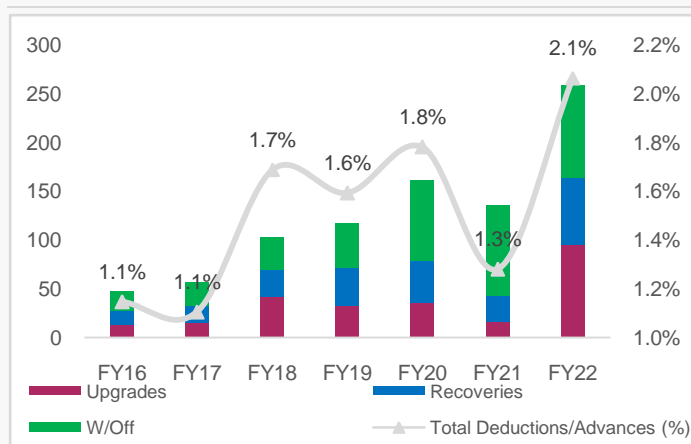
HDFCB's restructured book peaked to 1.4% in Q3FY22 vs. 0.7% during COVID 1.0. At the end of FY22, restructured book tapered to 1.15% and stood at Rs 157 Bn. ~41% of the loans are secured while the balance 59% of the loans are unsecured. In the unsecured portion, ~84% of the customers have a good credit bureau score or were non-delinquent at the time of restructuring. The bank expects the slippages from the restructured book to be at manageable levels of 10-20bps over the repayment period.

Exhibit 9: Asset Quality remains top-notch


Source: Company, Axis Securities

Exhibit 10: Credit Cost to stabilize at ~1% going forward

Exhibit 11: Slippages remained elevated


Source: Company, Axis Securities

Exhibit 12: However, weres off-set by strong recoveries/upgrades


Key Growth Drivers

Merger with HDFC Ltd to strengthen leadership position

HDFC Bank's (HDFCB) merger with HDFC Ltd. (HDFC), will help strengthen HDFCB's leadership position as synergies emerge over the longer term. The merger will help HDFCB increase the share of the mortgage portfolio, which is currently only ~6% and we believe that given the long growth runway for growth in the mortgage segment, the bank is missing out on benefitting from the large opportunity. Additionally, ~70% of HDFCB's customers who do not have any mortgage products will now be offered mortgages as a core product in a seamless manner.

Moreover, the long tenor loans will provide the bank with better cross-sell opportunities for its liability franchise as Home loan customers typically keep deposits that are 5-7x that of other retail customers. Similarly, given that HDFCB is one of the largest consumer durables financiers, it also can bundle these products with its home loan offerings. ***With the advantage of a lower cost of funds (HDFCB CoF in FY22 at 3.6% vs. HDFC's CoF at 5.8%, which is lower by ~220bps) and the distribution muscle that the bank has built, HDFCB will further strengthen its market leadership position. The housing opportunity over the next decade remains fairly large driven by improved penetration of telecom, internet and television services, and the desire to own better homes and should bode well for HDFCB over the long term.***

Aggressive Branch expansion to support and scale-up growth

While HDFCB has a strong branch network of 6000+ branches spread pan-India, to support the aggressive and ambitious growth the bank will look to double its branch network by adding 1500-2000 branches every year over the next 3-5 years. ***The key reason behind such an aggressive expansion strategy is to support the growth aspiration by enhancing its liability franchise, thus, new branch additions will help HDFCB to further strengthen its existing robust liability franchise.*** The expansion will also help in improving the bank's reach amongst the under-penetrated and underserved customers as the density of branches for the population currently remains significantly below that of OECD countries. Thus, we expect the bank to register a healthy credit growth of 19% CAGR over FY22-24, while deposits are expected to grow at 17-18% CAGR over the same period.

Commercial and Rural Banking (CRB) to remain a key growth driver

CRB primarily caters to micro, Small and Medium Enterprises (MSMEs), emerging corporates, commercial agriculture, small and marginal farmers, healthcare finance, equipment finance and commercial transport companies and has a high geographic footprint in the Semi-urban and rural markets (SURU). The vertical also helps HDFCB meet its PSL requirements. The CRB segment registered a healthy 17% CAGR growth over the past 3 years. Currently, HDFCB has 6,300+ branches of which over 5,300+ have loans outstanding to MSME customers. The bank has registered a robust growth of 3.3x in the MSME segment over the past 5 years, thereby enabling market share gains which improved to 18.4% in FY22 vs. 12% in FY20. The bank's wide geographical network along with its understanding of local business dynamics can be credited for HDFCB outperforming the overall industry growth. Along with growth HDFCB has been able to maintain its asset quality in the CRB portfolio, with GNPA in FY22 at 1.15%. ***The bank has identified this segment to drive growth over the long term adequately supported by geographical expansion with deeper village penetration, focusing on market share gains, aggressive customer acquisition and focus government-sponsored schemes.***

Along with CRB, HDFCB is looking to further expand its footprint in ***unsecured products as it looks to tap and penetrate deeper into the government segment*** supported by its increasing geographical presence along with nimble-footed lending solutions.

Another segment that the bank will continue to focus on is the ***gold lending space***, wherein the bank plans to ***expand its gold loan distribution by 3x by offering loans pan-India by end of FY23. The bank is also willing to explore Fintech tie-ups for co-lending in this segment.***

Another contributor to HDFCB's growth is the wealth segment, wherein the bank will focus on the Affluent and Mass Affluent segment of customers to drive growth. A large proportion of wealth in India is distributed even beyond the Top-20 cities in India. HDFCB aims to increase the Wealth Relationship team and expand its reach in B-30 (beyond Top-30) cities, to tap into this segment through a hub and spoke model. ***The wealth team is currently serving customers across 216 cities and is on track to reach 800+ locations by the end of FY23.***

Risks & Mitigation

- **Regulatory roadblocks in the completion of the merger**

HDFCB received a 'no adverse observation' certificate from the BSE and a no-objection certificate from both NSE and RBI for the merger with HDFC Ltd. In terms of regulatory criteria regarding the merger with HDFC Life in which HDFC Ltd currently holds ~47.8% and would become a subsidiary of the bank post-merger, the bank is required to hold <30% or >50% stake in a life insurance company. Thus, HDFCB has sought approval from the RBI to acquire an additional 2.2% of the stake in HDFC Life to be in compliance with regulatory requirements and the bank awaits the response of the regulator. Thus any adverse remark/action by the regulator in this regard or in compliance with other regulatory roadblocks could potentially delay the merger and thus remains a key risk.

- **Delay in pick-up in Retail Segment Growth**

With the growth in the retail segment slowing down, HDFCB witnessed pressure on NIMs. While the bank is focusing on improving growth in both the Retail and CRB segment, a slower than expected pick-up in retail lending could affect both credit growth thereby keeping margins under pressure. Furthermore, the risk of increasing interest rates continues to remain an overhang on the bank in maintaining its NIMS. Additionally, product-specific shocks in the retail segment (especially from the unsecured portfolio) could spring up a negative surprise on the credit cost front.

Operational Performance and Financial Statement Analysis

Profitability Analysis

(Rs Bn)

Particulars	FY21	FY22	Change	Comments
Net Interest Income	649	720	11%	Strong credit growth along with improving CoF aided NII growth, however changing portfolio mix m
Non-Interest Income	252	295	17%	Growth supported by robust growth in Fee income which grew by 21% YoY, trading income remained healthy in 9MFY22 however dropped significantly in Q4FY22.
PPOP	574	641	12%	Healthy top-line growth of 13% YoY and a fairly modest Opex growth of 14% YoY resulted in PPOP growth of 12% YoY
Provisions	157	151	-4%	Well-managed asset quality stress resulted in improvement in credit costs
PAT	311	370	19%	Decent PPOP growth supported by lower provisioning aided bottom line growth
EPS	56.4	66.7	19%	Same as above

Source: Company; Axis Securities

Spread Analysis

(Rs Bn)

Particulars	FY21	FY22	Change	Comments
Blended Yields	7.6%	7.0%	-67bps	Changing portfolio mix toward high-rated low-yielding products resulted in yield compression
Cost of Deposits	4.0%	3.4%	-66bps	The benign interest rate environment aid CoD/CoF contraction
Cost of Funds	4.1%	3.5%	-58bps	Same as above
Spreads	3.6%	3.5%	-9bps	
NIMs	4.2%	4.1%	-10bps	Pressure on yields owing to portfolio mix change weighed on NIMs, however multi-year low CoF supported NIMs

Source: Company; Axis Securities

Asset Quality Analysis

(Rs Bn)

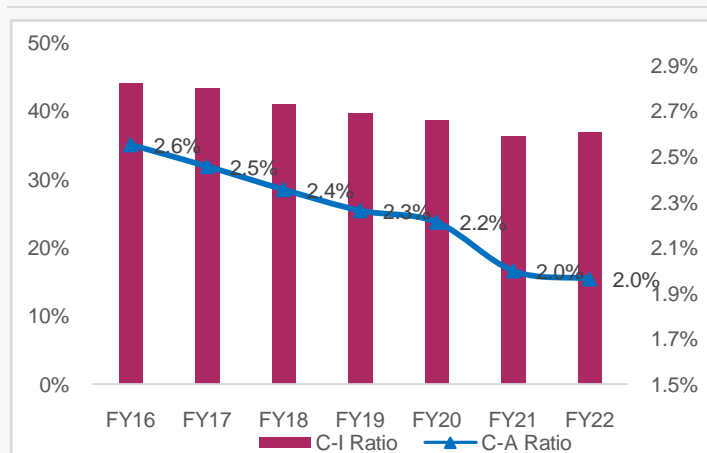
Particulars	FY21	FY22	Change	Comments
GNPA	150.9	161.4	7%	Strong recoveries and upgrades supported asset quality improvement even as slippages remained elevated
GNPA %	1.3	1.2	-15bps	Same as above
Slippage	160.4	268.6	67%	COVID 2.0 headwinds resulted in higher slippages
Slippage Ratio (%)	1.5	2.1	64bps	Same as above
NNPA	45.5	44.1	-3%	Improving provision coverage resulted in lower NNPA
NNPA %	0.4	0.3	8bps	Same as above
Credit Costs (%)	1.5	1.2	-28bps	Improving asset quality and under-control restructured book resulted in lower provisioning
Provision Coverage Ratio %	70	73	288bps	

Source: Company; Axis Securities

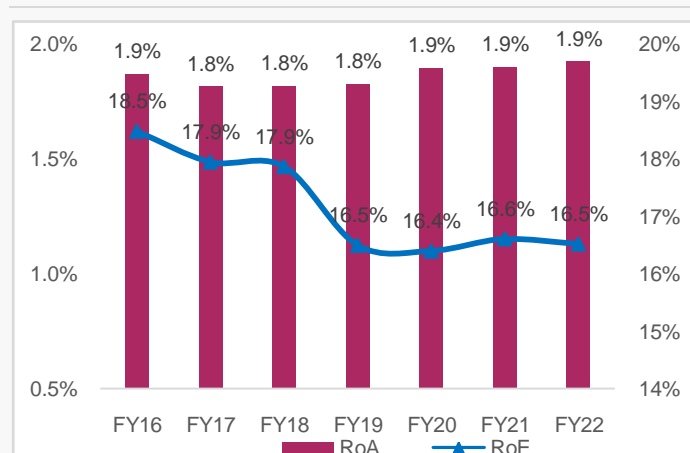
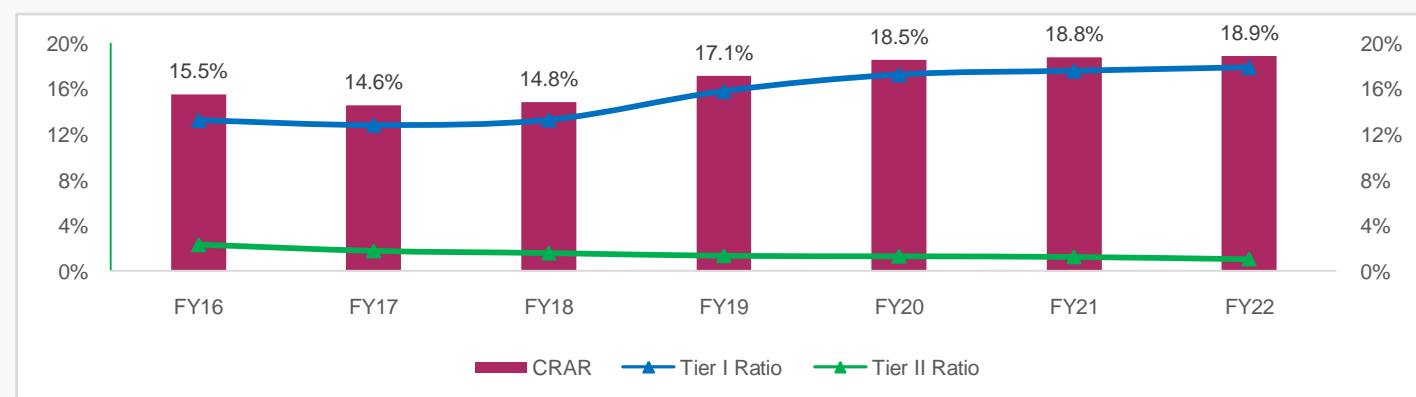
Efficiency Ratios
(%)

Particulars	FY21	FY22	Change	Comments
Cost-Income Ratio	36.3	36.9	30bps	Despite investment in franchises C-I Ratio remained steady
Cost-Assets Ratio	2.0	2.0	N.M	
ROA	1.9	1.9	N.M	Moderation in credit costs off-set the contraction in NIMs while Opex ratios remained largely steady, thus RoA remained stable YoY
ROE	16.6	16.5	N.M	
CRAR	18.8	18.9	N.M	The bank remains well capitalised
Tier I	17.6	17.9	N.M	Same as above
RWA (Rs Bn)	11,311	13,534	20%	
RWA to Total Assets (%)	64.8	65.4	68bps	

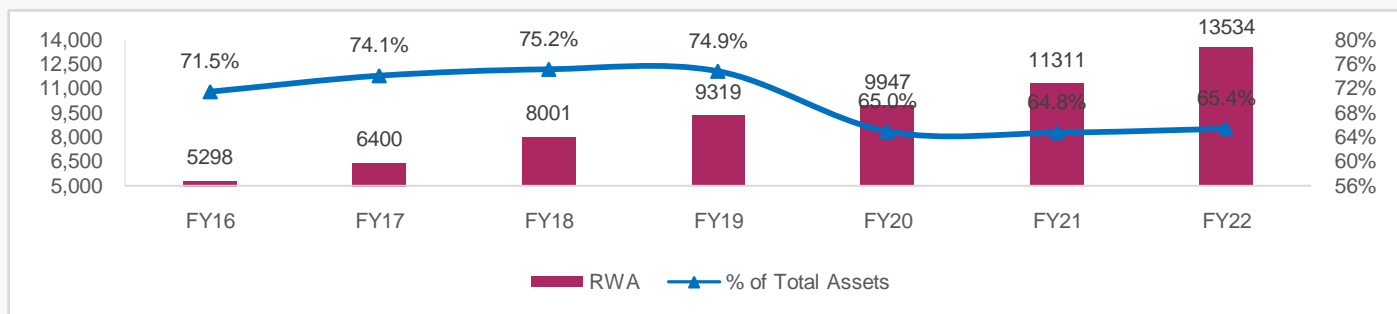
Source: Company; Axis Securities

Exhibit 13: Cost ratios remain largely stable despite investment in franchise


Source: Company; Axis Securities

Exhibit 14: Return Ratio remain steady

Exhibit 15: HDFCB remains well capitalized


Source: Company; Axis Securities

Exhibit 16: Improving Risk profile, RWA/Total assets has remained at ~65% over FY20-22


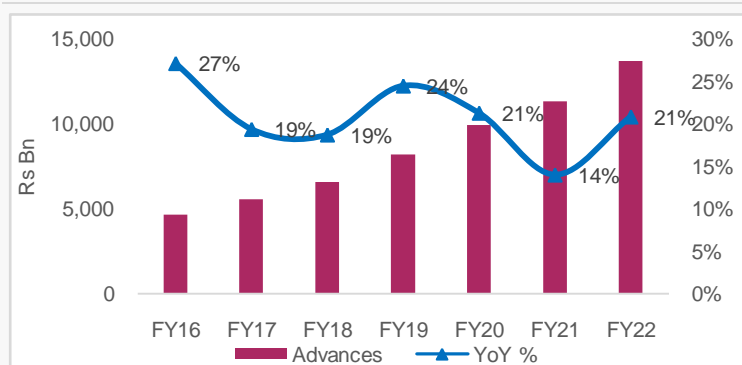
Source: Company, Axis Securities

Asset and Liability Analysis

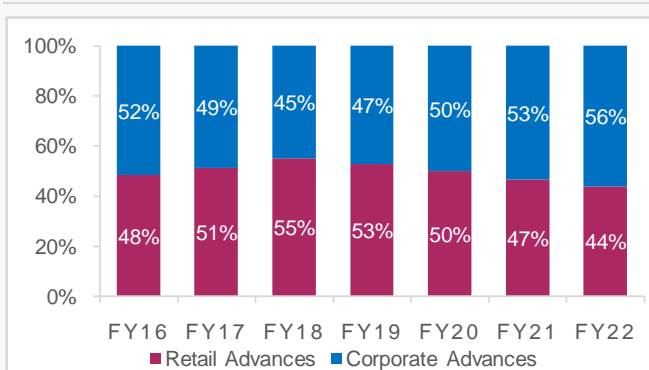
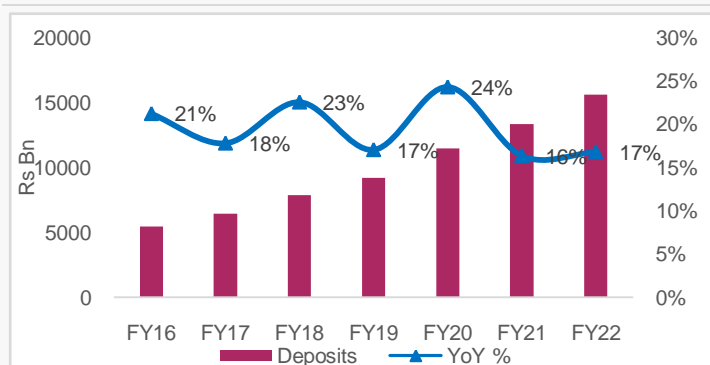
(Rs Bn)

Particulars	FY21	FY22	Change	Comments
Advances	11,328	13,688	21%	Growth led primarily by CRB and Corporate segment, while Retail growth lagged
Deposits	13,351	15,592	17%	Strong CASA growth of 22% YoY driven by a 27% YoY increase in SA deposits supported total deposit growth, TD growth was at 12% YoY
C/D Ratio (%)	84.9	87.8	294bps	
CASA Deposits	6,157	7,510	22%	Strong growth in Savings Deposits led to CASA growth
CASA Ratio (%)	46.1	48.2	205bps	
Total Assets	17,469	20,685	18%	

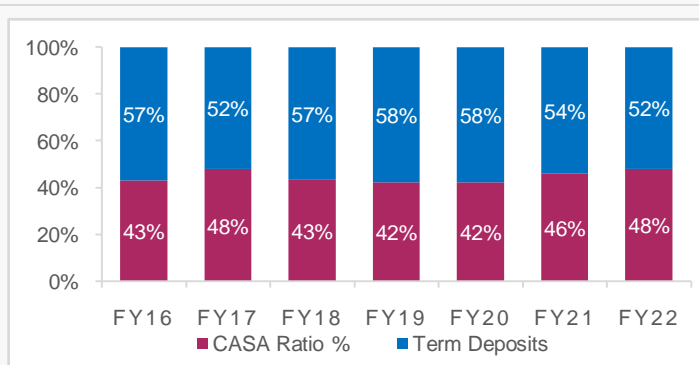
Source: Company; Axis Securities

Exhibit 17: Robust Advances Growth


Source: Company, Axis Securities

Exhibit 18: Mix of Retail Advances declines in FY22

Exhibit 19: Deposits Growth remains robust


Source: Company, Axis Securities

Exhibit 20: CASA Ratio improves


Contingent Liability Analysis
(Rs Bn)

Particulars	FY21	FY22	Change	Comments
Contingent Liabilities				
(a) Claims against the Bank not acknowledged as debts - Taxation	12.7	12.9	2%	Not Significant
(b) Claims against the Bank not acknowledged as debts - Others	2.3	1.3	-43%	Not Significant
(c) Liability on account of outstanding forward exchange contracts	4,965	6,552	32%	Usual Business Activity
(d) Liability on account of outstanding derivative contracts	3,577	5,898	65%	Usual Business Activity
(e) Guarantees given on behalf of constituents - in India	751	834	11%	
(f) Guarantees given on behalf of constituents – outside India	1.8	3.5	96%	
(g) Acceptances, endorsements and other obligations	377	616	64%	Usual Business Activity
(h) Other items for which the bank is contingently liable	25	38	52%	Usual Business Activity
Total Contingent Liabilities	9,711	13,954	44%	
Contingent Liabilities/Total Assets (%)	0.6%	0.7%	21%	

Source: Company; Axis Securities

Related Party Transactions
(Rs Bn)

Particulars	FY21	FY22	Change	Comments
(a) Interest Paid	0.3	0.3	-20%	Not Significant
(b) Interest Received	4.4	5.0	13%	Not Significant
(c) Income from services rendered	3.9	5.4	37%	
(d) Expenses for receiving services	29.9	35.0	17%	Usual Business Activity
(e) Dividend Received	1.5	8.3	473%	Usual Business Activity
(f) Dividend Paid	4.8	5.6	17%	
(g) Remuneration Paid	0.2	0.2	-24%	Usual Business Activity
(h) Loans purchased from	189.8	282.1	49%	Usual Business Activity

Source: Company; Axis Securities

Corporate Social Responsibility (CSR)

HDFCB has spent Rs. 7.4Bn activities towards CSR in FY22 and through its initiative named **Parivartan** touched the lives of 9.6+ Cr. **Parivartan** is the HDFCB's umbrella brand for all social efforts. It aims to drive positive change in people's lives by empowering them, to become self-sufficient and integrated with the society through direct or indirect interventions.

Parivartan is also at the forefront of natural disaster response, successfully restoring infrastructure and rehabilitating communities. Parivartan works under five thematic areas. Based on the identified focus areas, we have set seven goals and 11 sub-goals that guide our community development activities.

Exhibit 21: Highlights of HDFC Bank's CSR activities undertaken during FY22

Objective	Initiative
Natural Resource Management	<p>Under Parivartan, the bank has been working in 23 states in India to bring holistic development in the rural landscape.</p> <ul style="list-style-type: none"> ✓ Construction of solar streetlights, biomass stoves, community biogas plants, and the distribution of solar home lighting ✓ Building Rainwater Harvesting Structures, Community Tanks, Hand Pump, and Wells ✓ Seed Bank, Grain Bank, and Village Nursery are being established. ✓ Establishment of ~48,490+ kitchen gardens
Promotion of Education	<p>This is one of Parivartan's most significant pillars, which encourages equal education for all students, from early childhood through secondary school. Sustainable Livelihood Improvement Project (LIP) through Integrated Watershed Management</p> <ul style="list-style-type: none"> ✓ Scholarship opportunities like the ECS Scholarship ✓ Introduction of Smart Classes across different states to integrate technology with education ✓ Sports as one of the pillars of education to promote the health and well-being of children
Healthcare and Hygiene	<p>The bank focuses on eliminating Non-Communicable Disease in some states and establish accessible sanitary facilities despite difficult terrains.</p> <ul style="list-style-type: none"> ✓ Planting of 17.69 Lakh+ trees has helped increase groundwater levels ✓ Development of ~23,800 household toilet units across India ✓ Guinness World Record for organising the world's largest blood donation drive
Skill Development and livelihood Enhancement	<p>Managing and improving skills is an important part of increasing employment and establishing long-term livelihood options.</p> <ul style="list-style-type: none"> ✓ Assist farmers in changing their logistics and supply chains ✓ Aided in the formation of dairy cooperatives, poultry farms, integrated poultry-goat rearing fishery units ✓ Parivartan has trained ~8,470 SHGs in rural India with the goal of empowering women ✓ The bank has trained nearly 2.54 Lakh+ people through its partners, in accordance with the ideals of fairness and inclusion
Financial Literacy and Inclusion	<p>The bank offers financial literacy programs to help communities make informed financial decisions.</p> <ul style="list-style-type: none"> ✓ The bank conducts financial literacy workshops ✓ Digidhan or Dhanchayat is the Bank's financial literacy program on wheels

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY22	FY23E	FY24E	FY25E
Net Interest Income	720	854	1,021	1,196
Other Income	295	320	389	456
Total Income	1,015	1,174	1,409	1,653
Total Operating Exp	374	459	533	623
PPOP	641	716	877	1,029
Provisions & Contingencies	151	144	178	219
PBT	490	571	698	811
Provision for Tax	121	144	176	204
PAT	370	427	522	606

Source: Company, Axis Securities

Balance Sheet

(Rs Bn)

Y/E March	FY22	FY23E	FY24E	FY25E
SOURCES OF FUNDS				
Share capital	6	6	6	6
Reserves and surplus	2,395	2,737	3,155	3,640
Shareholders' funds	2,401	2,743	3,161	3,646
Deposits	15,592	18,267	21,605	25,541
Borrowings	1,848	2,483	2,901	3,286
Other Liabilities	844	928	1,021	1,123
Total	20,685	24,421	28,688	33,596
APPLICATION OF FUNDS				
Cash & Bank Balance	1,523	1,547	1,600	1,619
Investments	4,555	5,300	6,053	6,900
Advances	13,688	16,545	19,853	23,716
Fixed and Other assets	919	1,029	1,183	1,361
Total Assets	20,685	24,421	28,688	33,596

Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY22	FY23E	FY24E	FY25E
VALUATION RATIOS				
EPS	66.7	77.1	94.2	109.3
Earnings Growth (%)	18%	16%	22%	16%
BVPS	432.9	494.6	570.0	657.4
Adj. BVPS	418.1	478.7	552.2	637.9
ROAA (%)	1.9	1.9	2.0	1.9
ROAE (%)	16.5	16.6	17.7	17.8
P/E (x)	20.8	18.1	14.8	12.7
P/ABV (x)	3.3	2.9	2.5	2.1
Dividend Yield (%)	1.1	1.1	1.4	1.6
PROFITABILITY				
Yield on Advances (%)	7.9	8.0	8.2	8.2
Blended Yield (%)	7.0	7.1	7.3	7.4
Cos of Deposits (%)	3.4	3.5	3.6	3.7
Cost of Funds (%)	3.5	3.6	3.7	3.7
Spreads (%)	3.5	3.5	3.6	3.6
NIM (%)	4.1	4.0	4.0	4.0
OPERATING EFFICIENCY				
Cost/Avg. Asset Ratio (%)	2.0	2.0	2.0	2.0
Cost-Income Ratio (%)	36.9	39.0	37.8	37.7
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	20.8	20.9	20.0	19.5
Deposit Growth (%)	16.8	17.2	18.3	18.2
C/D Ratio (%)	87.8	90.6	91.9	92.9
Equity/Assets (%)	11.6	11.2	11.0	10.9
Equity/Loans (%)	17.5	16.6	15.9	15.4
CASA Ratio (%)	48.2	48.0	47.4	46.8
Tier I CAR	17.9	17.1	16.1	15.3
ASSET QUALITY				
Gross NPLs (Rs Bn)	161.4	199.7	256.3	318.7
Net NPLs (Rs Bn)	44.1	50.1	60.1	70.1
Gross NPLs (%)	1.2	1.2	1.3	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3
Coverage Ratio (%)	73	75	77	78
Provisions/Avg. Adv(%)	1.2	1.0	1.0	1.0
ROAA TREE				
Net Interest Income	3.8	3.8	3.8	3.8
Non-Interest Income	1.5	1.4	1.5	1.5
Operating Cost	2.0	2.0	2.0	2.0
Provisions	0.8	0.6	0.7	0.7
Tax	0.6	0.6	0.7	0.7
ROAA	1.9	1.9	2.0	1.9
Leverage (x)	8.6	8.8	9.0	9.2
ROAE	16.5	16.6	17.7	17.8

Source: Company, Axis Securities

HDFC Bank Price Chart and Recommendation History



Date	Reco	TP	Research
28-Feb-20	BUY	1,296	Pick of the week
29-Apr-20	BUY	1,233	Initiating Coverage
08-Jun-20	BUY	1,137	Pick of the week
20-Jul-20	BUY	1,239	Result Update
06-Oct-20	BUY	1,239	Company Update
19-Oct-20	BUY	1,458	Result Update
18-Jan-21	BUY	1,710	Result Update
19-Apr-21	BUY	1,785	Result Update
06-Jul-21	BUY	1,785	Company Update
16-Jul-21	BUY	1,720	Result Update
05-Oct-21	BUY	1,770	Company Update
18-Oct-21	BUY	1,935	Result Update
17-Jan-22	BUY	1,985	Result Update
05-Apr-22	BUY	1,985	Company Update
18-Apr-22	BUY	1,960	Result Update
18-Jul-22	BUY	1,840	Result Update
25-Jul-22	BUY	1,840	AAA

Source: Axis Securities

About the analyst



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Sector: BFSI

Analyst Bio: Dnyanada Vaidya is MMS (Finance) with over 4 years of research experience in the Banking/NBFC sector.

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Sector: BFSI

Analyst Bio: Sumit Rath is MBA (Finance) and CFA Charter holder with over 6 years of research experience covering and tracking various sectors including Banking/NBFC sector.

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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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