Equity Research
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BSE Sensex: 57920

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Q2FY23 result review and earnings revision

Banking

Target price Rs1,874

Earnings revision

(%)	FY23E	FY24E
PAT	↑ 1	↑ 1

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	25.8	25.8	25.7
Institutional investors	60.4	60.2	59.4
MFs and others	15.0	16.3	18.0
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	2.9	0.6	0.7
FPI	42.5	43.3	40.7
Others	13.8	14.0	14.9

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	57	63	6
Environment	40	40	0
Social	52	57	5
Governance	80	92	13

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

HDFC Bank

BUY
Maintained

Robust growth + NIM expansion retraces NII growth; offset by elevated opex and treasury hit **Rs1,439**

HDFC Bank's Q2FY23 earnings were exactly in line with I-Sec estimate. PAT growth was reported at 20% YoY / 15% QoQ to Rs106bn. Robust growth of 23.4% YoY / 6% QoQ in advances, and 10bps NIM expansion, retraced NII growth to better than expected levels of 19% YoY / 8% QoQ (rebound from lows of 10% YoY in Q4FY22). This was offset by treasury hit of Rs2.5bn (over and above the Rs13.1bn in Q1FY23). GNPA moderated QoQ to 1.23% (*vs* 1.28% QoQ) with slippages contained at 1.9%. Credit cost was managed at 0.87% (*vs* 0.91% / 0.97% in Q1FY23 / Q4FY22). Continued investment led to an elevated opex-to-assets ratio of >2% as opex grew 21% YoY / 7% QoQ. Core operating profit grew 16.6% YoY / 5.8% QoQ. HDB Financial earnings too reflected pick-up in growth traction and asset quality improvement. With respect to merger with HDFC, given the encouraging pace of approvals, the amalgamation seems a quarter or a few months ahead of the guided timeframe. Maintain BUY with an unchanged target price of Rs1,874, assigning 3.2x FY24E book. Key risks: regulatory costs attached with HDFC merger, and elevated opex.

- **How we read Q2FY23 earnings:**
  - ***With repricing benefit, NIM expansion was better than expected:*** Repricing impact was clearly visible in the 11% QoQ rise in interest on advances and 12% QoQ rise in interest expenses. Incremental C/D ratio was upward of 100% and outstanding C/D ratio expanded by a further 150bps to 88.4%. Bank is focused on accelerating its retail deposit engine to support robust growth in advances. NIMs thereby expanded 10bps QoQ to 4.1% (better than consensus expectations).
  - ***Sequential growth supported by wholesale and CRB along with focused retail products:*** While growth was primarily led by wholesale banking (up 27.0% YoY / 9.0% QoQ) as well as commercial and rural banking (31.3% YoY / 9.0% QoQ), retail growth too kept pace at 20.2% YoY / 4.1% QoQ. Sequential momentum was led by personal loans (up 22.5% YoY / 4.7% QoQ), home loans (22.8% YoY / 5.4% QoQ), LAP (27.4% YoY / 6.4% QoQ) and gold loans (16.3% YoY / 7.1% QoQ). Payment products (predominantly credit card) growth at 2.3% QoQ / 20.9% seems to have lagged industry-wide credit card portfolio growth.
  - ***Treasury hit primarily due to MTM knock on corporate bonds / PTCs:*** With the AFS portfolio at 34%, HDFC Bank has reported further treasury loss of Rs2.5bn mainly due to MTM on shorter-term corporate bonds and PTCs.
  - ***Slippages from restructured pool at 25% in H1FY23:*** Of the restructured pool of Rs134bn as at FY22, 25% has slipped into NPA to the tune of Rs33.4bn. Overall slippage run-rate thereby came in at 1.9% (1-year lagged basis).

Market Cap	Rs8015bn/US$97.3bn
Reuters/Bloomberg	HDBK.BO/HDFCB IN
Shares Outstanding (mn)	5,570.0
52-week Range (Rs)	1689/1281
Free Float (%)	74.3
FII (%)	40.7
Daily Volume (US$'000)	1,35,726
Absolute Return 3m (%)	6.5
Absolute Return 12m (%)	(13.7)
Sensex Return 3m (%)	8.7
Sensex Return 12m (%)	(4.3)

Year to Mar	FY21	FY22	FY23E	FY24E
NII (Rs bn)	649	720	842	1023
Net Profit (Rs bn)	311	370	438	528
EPS (Rs)	56.4	66.7	79.0	95.3
% Change YoY	17.9	18.1	18.5	20.6
P/E (x)	25.5	21.6	18.2	15.1
P/BV (x)	3.9	3.3	2.9	2.4
P/ABV (x)	4.0	3.4	2.9	2.5
GNPA (%)	1.3	1.2	1.3	1.4
RoA (%)	1.9	1.9	1.9	2.0
RoE (%)	16.6	16.7	16.9	17.4

- **Read-through for other banks with regards to some more aspects:** 1) While longer tenure G-sec yields moderated in Q2FY23, shorter end yields witnessed an uptick. So, for other banks too, though treasury loss will likely be substantially lower QoQ, there should not be much write-back expectations. 2) Loan repricing benefit from hikes in EBLR and MCLR rates will likely support NIMs. 3) Investment in franchise to keep opex elevated for peer banks too. 4) Slippages from the restructured pool will be a key factor to watch.

- **Merger approvals running well ahead of stipulated timelines:** NCLT has, in its order dated 14th Oct'22, directed the bank to, inter alia, convene the meeting of its equity shareholders on 25th Nov'22, for the purpose of considering and, if thought fit, approving with or without modification(s) the arrangement embodied in the scheme. Post shareholders meeting, NCLT will evaluate the arrangement by interacting with market participants, regulators and there will be a few hearings.

  Bank is still in dialogue with RBI on the outcome of various dispensations sought from it. However, bank is of the view that it is good to have dispensation, but the merger is not contingent on it. With respect to merger timeline, given the pace of approvals till now from various authorities, the bank seems to be a quarter or a few months ahead of its stipulated timelines.

- **With repricing benefit, NIM expansion was better than expected; NII growth rebounds to 18.9% YoY:** Repricing impact was clearly visible in the 11% QoQ rise in interest on advances and 12% QoQ rise in interest expenses. Incremental C/D ratio was upward of 100% and outstanding C/D ratio expanded by a further 150bps to 88.4%. Core NIMs thereby expanded 10bps QoQ to 4.1% (on total assets) and to 4.3% (on interest earning assets), better than consensus expectations. This, coupled with 23.4% growth in advances, supported 18.9% YoY / 7.9% QoQ growth in net interest income (rebounding from 14.5% / 10% YoY growth in Q1FY23 / Q4FY22). This was in line with our expectations, but a tad above consensus estimate. NII growth YoY was the highest in past 13 quarters.

  Almost 28% of the advances are linked to repo, while 13-14% are linked to T-bills. On the other hand, 45% of loan portfolio is fixed-rate in nature. Management highlighted that reset of floating rate loans happens with lag of at least 3 months and even 6 months in some segments. HDFC Bank has raised its term deposit rates by 60-70bps since Mar'22. It will not be very aggressive on the deposit rate front but, at the same time, will price it competitively within a range to be relevant in the market to sustain incremental deposit market share.

  With incremental growth being largely led by retail / SME, further supported by faster repricing of the loan portfolio than deposits, margins should improve in the near term. Nonetheless, given the expansion in C/D ratio and LCR at 118%, the bank is focused on accelerating its retail deposit engine to support robust growth in advances. We are building-in margins (calculated) at 3.9% and 4.0% for FY23E and FY24E respectively.

- **Advances growth healthy at 23.4% YoY / 6.1% QoQ:** Management believes growth runway is huge and it can potentially add one HDFC Bank every five years. In Q2FY23, advances grew 6.1% QoQ primarily led by wholesale banking as well as commercial/rural banking. On YoY basis, credit growth momentum improved further to 23.4% (*vs* 21.5% / 20.9% / 16.4% / 15.5% in Q1FY23 / Q4FY22 / Q3FY22 / Q2FY22 respectively), well above overall sector growth rate. Gross of transfers through inter-bank participation certificates and bills rediscounted, the bank's advances grew 25.8% YoY and 7.2% QoQ.

Among loan categories, growth was primarily led by wholesale banking (27.0% YoY / 9.0% QoQ) as well as commercial and rural banking (up 31.3% YoY / 9.0% QoQ). Wholesale banking growth was despite the bank giving up some lending opportunities to the tune of Rs450bn-500bn in corporate segment due to rate dislocation and competitive pricing by peers.

Retail advances too sustained momentum registering 20.2% YoY / 4.1% QoQ growth. Sequential momentum was led by personal loans (up 22.5% YoY / 4.7% QoQ), home loans (22.8% YoY / 5.4% QoQ), LAP (27.4% YoY / 6.4% QoQ) and gold loans (16.3% YoY / 7.1% QoQ).

Payment products (predominantly credit card) growth of 2.3% QoQ / 20.9% seems to have lagged industry-wide credit card portfolio growth. Credit-line utilisation on cards is still at 70-80% of pre-covid levels. Spends are primarily led by transactors and revolve rates are yet to pick pace. Overall, we are building in 22% CAGR in loanbook over FY22-FY24E.

- **Accelerating deposit engine a key focus area:** Deposit gathering is a prime activity with branch expansion – vintage and productivity improvement being key dimensions to it. In order to aid deposit growth, the bank has been expanding its distribution franchise. Deposit strategy revolving around branch-led, relationship-based and self-funding across product segments, remains an important aspect and a key focus area. Deposit momentum gained traction registering 19% YoY and 4% QoQ growth. Among deposits, retail growth was strong at 21% YoY / 6% QoQ. CASA ratio too moderated to 45.4% *vs* 45.8% QoQ and 46.8% YoY with15% YoY / 3% QoQ growth in CASA deposits.

- **Slippages managed at 1.9% despite flow-through from restructured pool; GNPA decline was broad-based across segments:** Of the restructured pool at Rs134bn as of FY22, 25% has slipped into NPA to the tune of Rs33.4bn in H1FY23. Overall slippage run-rate thereby came in at 1.9% (1-year lagged basis) to Rs57bn. Offset by write-offs at Rs30bn and recoveries/upgrades of Rs25bn, GNPAs moderated by 5bps QoQ to 1.23%. Net NPA at 0.33% was down 2bps QoQ with coverage ratio up 40bps QoQ to 73.3%.

  Corporate GNPA was down 7bps QoQ to 0.57%, retail advances GNPA too came off 5bps QoQ to 1.13% and commercial and rural banking (CRB) GNPA fell 11bps QoQ to 1.76%. CRB GNPA (ex-agri) did not witness improvement and was steady QoQ at 1.23%. Further curtailment of slippages in H2, better recoveries and improved collections are expected to support asset quality trends in the coming quarters, in our view. We are estimating GNPA of 1.3% and 1.4% for FY23E and FY24E respectively.

- **Credit cost at 0.87% led by specific loan-loss provisioning; contingency buffer at 75bps:** On slippages of Rs57bn, HDFC Bank made specific provisions of Rs30bn. With this, credit cost was at 87bps (*vs* 91bps QoQ and 130bps YoY), which was in-line with our expectations. There was no contingency buffer created during the quarter as it carries cumulative credit-related contingency + floating buffer of 75bps (comprising floating provisions of Rs14.5bn and contingency provisions of Rs96.3bn). Total provisions (comprising specific, floating, contingency and general) of Rs313bn is equivalent to 2.11% of advances, or 171% of GNPA. With reducing stress, sustained recovery momentum and confidence in the bank's inherent portfolio quality, we estimate credit cost to settle at 0.9% and 1.0% for FY23E and FY24E respectively.

- **Restructured portfolio down to 53bps of advances:** Of the restructured pool of Rs134bn as of FY22, 25% has slipped into NPA to the tune of Rs33.4bn and almost Rs17.6bn of this was written-off during H1FY23. With recoveries of Rs22bn from this pool, outstanding restructured pool as of H1FY23 stood at Rs78.5bn (0.53% of advances).

- **Investment in franchise leads to elevated opex-to-assets at >2%; opex up 21% YoY / 6.9% QoQ:** Bank is strengthening its geographical footprint in terms of both reach and density. It added 121 branches (with another 500 at various stages of implementation) and 8,516 employees (up 6% QoQ) during Q2FY23 and 813 branches and 31,686 employees (up 25% YoY) during the past 12 months. As a result, total branch network stood at 6,499. Bank will follow its *Future-Ready* strategy by bringing substantial addition to its branch network this fiscal onwards.

  Operating cost has thereby risen 6.9% QoQ and 21.0% YoY and stood at 2.07% of average assets *vs* 2.01% QoQ and 2.06% YoY. Cost-to-income (excluding treasury loss) stood at 39%.

  Rapid branch expansion, focus on scaling up retail, coupled with investment in technology (tech spend at 8-9% of opex) led to 10% QoQ and 22% YoY rise in non-employee cost. We are building-in opex-to-assets at 2.0% and 2.0% for FY23E and F24E respectively.

- **Core fee income up 17% YoY / 8% QoQ; core operating profit up 16.6% YoY:**

  Within non-interest income, core fee income increased by 17% YoY and 8% QoQ, forex revenues were up 9% YoY and down 25% QoQ, and 'other income' at Rs110bn was up 20% YoY and 2% QoQ. Proportion of retail fee further improved to 93% of overall fee income, making this stream more granular and stable.

  With its AFS portfolio at 34%, HDFC Bank has reported a further treasury loss of Rs2.53bn (over and above the Rs13.1bn QoQ) mainly due to MTM on shorter-term corporate bonds and PTCs. While longer-tenure G-sec yields have moderated in Q2FY23, shorter end yields witnessed an uptick.

  Due to relatively lower treasury loss QoQ, non-interest income was up 3% YoY and 19% QoQ and 'other income' (ex-treasury) was up 17% YoY and 2% QoQ.

  Reported pre-provision operating profit (PPOP) was up 13% YoY / 10% QoQ to Rs174bn. PPOP, excluding trading and MTM losses, grew 16.6% YoY.

- **HDB Financial Services (HDB) earnings reflect increase in disbursement momentum and improved asset quality:** HDB's stage-3 assets reduced to 4.88% (*vs* 4.95% / 4.99% / 6.05% / 6.10% in Q1FY23 / Q4 / Q3 / Q2 FY22). With respect to stress pool, secured book coverage is at 46% and unsecured book coverage at 92%.

  Momentum in disbursements gained significant traction (up 8.5% QoQ to Rs98.6bn) and customer base also expanded 6% QoQ / 33% YoY. As a result, loanbook was up 2% QoQ at Rs631bn with secured loan comprising 75% of it.

  HDB reported profit of Rs4.7bn (*vs* Rs4.41bn in Q1FY23, Rs4.27bn in Q4FY22, Rs3bn in Q3FY22, Rs1.9bn in Q2FY22, Rs1.3bn in Q1FY22 and FY21 PAT of 3.9bn) with cost-to-income at 38.4% for Q2FY23.

Table 1: Q2FY23 result review

(Rs mn, year ending March 31)

Particulars	Q2FY23	Q2FY22	% Change YoY	Q1FY23	% Change QoQ
Net Interest Income	2,10,212	1,76,844	18.9	1,94,814	7.9
% Growth	*18.9*	*12.1*		*15*	*29.8*
Fee income	58,029	49,459	17.3	53,604	8.3
Add: Other income	17,926	24,549	(27.0)	10,278	74.4
Total Net Income	**2,86,167**	**2,50,852**	**14.1**	**2,58,697**	**10.6**
% Growth	14.1	14.7		11.0	
Less: Operating Expenses	1,12,246	92,779	21.0	1,05,018	6.9
Staff cost	*35,238*	*29,671*	*18.8*	*35,002*	*0.7*
Other opex	*77,007*	*63,108*	*22.0*	*70,016*	*10.0*
Pre-provision operating profit	**1,73,922**	**1,58,073**	**10.0**	**1,53,678**	**13.2**
Less: Provisions (ex-Tax)	32,401	39,247	(17.4)	31,877	1.6
PBT	**1,41,520**	**1,18,826**	**19.1**	**1,21,801**	**16.2**
Less: taxes	35,463	30,483	16.3	29,841	18.8
PAT	**1,06,058**	**88,343**	**20.1**	**91,960**	**15.3**
% Growth	20.1	17.6		19.0	
Balance sheet (Rs mn)					
Advances	1,47,98,732	1,19,88,374	23.4	1,39,50,677	6.1
Deposits	1,67,34,080	1,40,63,433	19.0	1,60,47,600	4.3
Asset quality					
Gross NPL	1,83,010	1,63,461	12.0	1,80,337	1.5
Net NPL	48,827	47,551	2.7	48,877	(0.1)
Gross NPL ratio (Change bps)	1.23	1.35	(12)	1.28	(5)
Net NPL ratio (Change bps)	0.33	0.40	(7)	0.35	(2)
Credit cost (Change bps)	0.87	1.34	(47)	0.92	(5)
Coverage ratio (Change bps)	73	71	241	73	42
Business ratio			**Change bps**		**Change bps**
RoAA	2.0	2.0	(1)	1.8	20
RoAE	16.8	16.4	43	15.0	182
CASA	45.4	46.8	(141)	45.8	(38)
Credit / Deposit Ratio	88.4	85.2	319	86.9	150
Cost-Income ratio	39.2	37.0	224	40.6	(137)
Earnings ratios					
Yield on advances (calc)	8.5	8.2	24	7.9	53
Cost of deposits (calc)	4.3	4.0	31	4.0	32
NIM (reported)	4.1	4.1	-	4.0	10

Source: Company data, I-Sec research

Table 2: Growth was primarily led by wholesale banking, CRB and focused retail products

(Rs bn, year ending March 31)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY % chg	QoQ % chg	% of total
Retail	**4,829**	**5,058**	**5,318**	**5,579**	**5,805**	**20.2%**	**4.1%**	**38.1%**
Personal loans	1,264	1,334	1,401	1,479	1,548	22.5%	4.7%	10.2%
Auto	952	964	1,005	1,040	1,088	14.3%	4.6%	7.1%
Home loans	758	790	831	882	931	22.8%	5.4%	6.1%
Payment products	678	733	768	801	820	20.9%	2.3%	5.4%
LAP	544	577	622	651	693	27.4%	6.4%	4.6%
2W	97	93	93	92	96	-1.2%	4.4%	0.6%
Gold loans	81	82	84	88	94	16.3%	7.1%	0.6%
Other Retail	456	484	515	544	536	17.5%	-1.6%	3.5%
Commercial and rural banking	**4,150**	**4,402**	**4,847**	**4,981**	**5,447**	**31.3%**	**9.4%**	**35.8%**
Comm & Rural banking ex-Agri	3,590	3,842	4,202	4,365	4,745	32.2%	8.7%	31.2%
Agriculture	560	560	645	616	703	25.5%	14.1%	4.6%
Other wholesale	**3,124**	**3,262**	**3,640**	**3,639**	**3,968**	**27.0%**	**9.0%**	**26.1%**
Corporates & other wholesale	3,124	3,262	3,640	3,639	3,968	27.0%	9.0%	26.1%
Total gross advances	**12,104**	**12,722**	**13,805**	**14,199**	**15,221**	**25.8%**	**7.2%**	**100.0%**

Source: Company data, I-Sec research

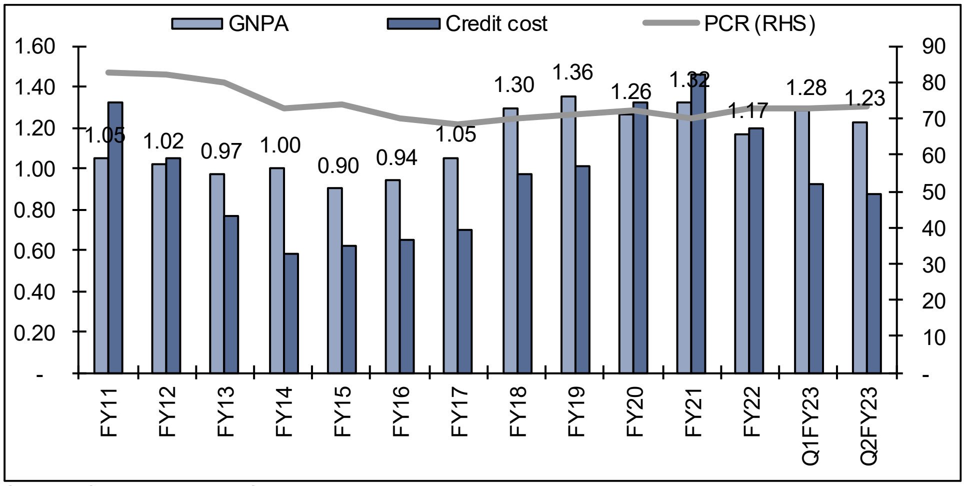
Table 3: CRB share gradually inching in overall loan mix

	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY % Chg	QoQ % Chg
Loan book (Rs bn)										
Retail	4,465	4,617	4,583	4,829	5,058	5,318	5,579	5,805	20.2	4.1
Commercial & rural banking	3,401	3,717	3,863	4,150	4,402	4,847	4,981	5,447	31.3	9.4
Other wholesale	3,035	3,099	3,146	3,124	3,262	3,640	3,639	3,968	27.0	9.0
Gross advances	**10,901**	**11,433**	**11,592**	**12,104**	**12,722**	**13,805**	**14,199**	**15,221**	**25.8**	**7.2**

Loan book (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Retail	41%	40%	40%	40%	40%	39%	39%	38%
Commercial and rural banking	31%	33%	33%	34%	35%	35%	35%	36%
Other wholesale	28%	27%	27%	26%	26%	26%	26%	26%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data, I-Sec research

Chart 1: GNPA down 5bps QoQ to 1.23% aided by lower slippages



Source: Company data, I-Sec research

Table 4: GNPAs see a fall across segments

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
GNPA (%)					
GNPA as a ratio of customer assets	1.28	1.19	1.11	1.22	1.18
GNPA as a ratio of gross advances	**1.35**	**1.26**	**1.17**	**1.28**	**1.23**
Retail advances	1.37	1.14	1.17	1.18	1.13
CRB advances	1.95	1.94	1.67	1.87	1.76
CRB advances (ex Agri)	1.40	1.30	1.20	1.23	1.23
Corporate and other wholesale	0.55	0.55	0.53	0.64	0.57
Provisions	**Q1FY22**	**Q2FY22**	**Q3FY22**	**Q4FY22**	**Q1FY23**
Total provisions as a % of advances	2.20%	2.16%	2.13%	2.18%	2.09%
Total provisions (ex-specific) as a % of advances	1.24%	1.27%	1.28%	1.25%	1.19%
Total provisions as a % of GNPA	163%	172%	182%	170%	171%
Specific PCR	71%	71%	73%	73%	73%

Source: Company data, I-Sec research

Table 5: Credit cost at 0.87% towards specific provisions, no contingency buffer created

(Rs bn, year ending March 31)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Specific & General	26.8	21.1	22.6	32.4	32.4
Contingency	12.4	8.8	10.5	(0.5)	-
Total	**39.2**	**29.9**	**33.1**	**31.9**	**32.4**

Source: Company data, I-Sec research

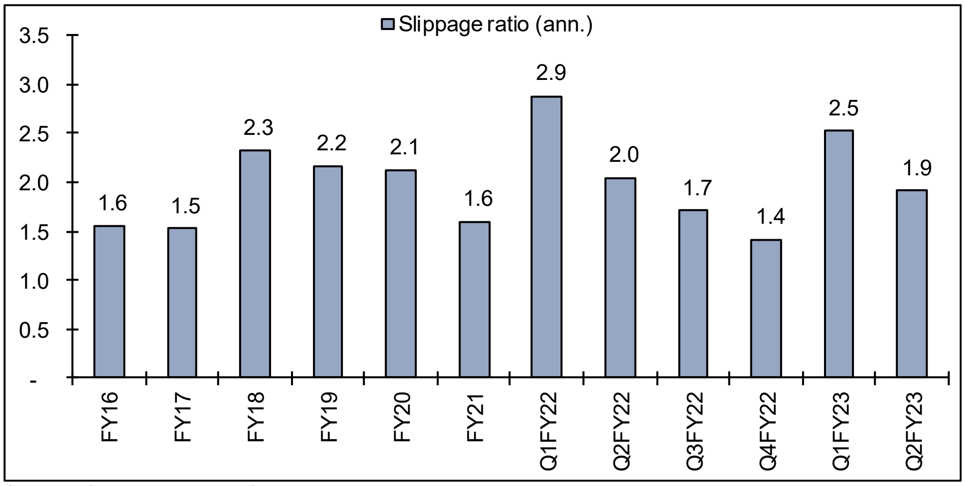
Table 6: Contingency plus floating provisions buffer now at 75bps of advances

(Rs bn, year ending March 31)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Floating	14.5	14.5	14.5	14.5	14.5
Contingency	77.6	86.4	96.9	96.3	96.3
Specifc & General	146.6	174.6	182.4	195.8	202.1
Total	**238.7**	**275.4**	**293.8**	**306.6**	**312.9**
% of advances	**1.99%**	**2.18%**	**2.15%**	**2.20%**	**2.11%**
% of advances (floating + contingency)	**0.77%**	**0.80%**	**0.81%**	**0.79%**	**0.75%**

Source: Company data, I-Sec research

Chart 2: Annualised slippage run-rate (1-year lagged basis) fell to 1.9%



Source: Company data, I-Sec research
Note: Annual slippage ratio is based on one-year lagged advances

Table 7: Restructured portfolio down to 53bps of advances; 25% of restructured pool slips in H1FY23

Type of borrower (Rs bn)	**Exposure to accounts classified as Standard consequent to implementation of resolution plan - Position as of the end of Q4FY22 (A)**	**Of (A), aggregate debt that slipped into NPA during H1FY23**	**Of (A), written-off during H1FY23**	**Of (A), amount paid by borrowers during H1FY23**	**Exposure to accounts classified as Standard consequent to implementation of resolution plan - Position as of the end of Q2FY23**
Personal loans	97.82	26.90	17.23	18.35	52.56
Corporate persons	15.12	3.07	0.05	0.79	11.26
of which MSMEs	*1.54*	*0.12*	*0.01*	*0.14*	1.28
Others	20.96	3.46	0.37	2.81	14.69
Total	**133.90**	**33.43**	**17.65**	**21.96**	**78.51**
As a % of Q4FY22 exposure which is (A)		***25.0%***	***13.2%***	***16.4%***	***58.6%***

Source: Company data, I-Sec research.

Table 8: Core fee income up 17% YoY / 8% QoQ; core operating profit up 16.6% YoY

(Rs bn, year ending March 31)

	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Fees & Commission Income	39,403	49,749	50,233	38,854	49,459	50,751	56,303	53,604	58,029
Forex & derivatives	5,604	5,622	8,793	11,987	8,673	9,495	8,925	12,593	9,478
Gain on sale/revaluation of invts	10,162	11,090	6,551	6,010	6,755	10,465	(403)	(13,117)	(2,531)
Misc. income, incl. recoveries	5,756	7,971	10,362	6,035	9,121	11,125	11,547	10,802	10,979
Total	**60,925**	**74,432**	**75,939**	**62,885**	**74,008**	**81,836**	**76,371**	**63,882**	**75,956**
YoY %									
Fees & Commission Income	(3)	10	20	74	26	2	12	38	17
Forex & derivatives	2	7	76	175	55	69	2	5	9
Gain on sale/revaluation of invts	111	64	16	(45)	(34)	(6)	(106)	(318)	(137)
Misc. income, incl. recoveries	15	(15)	35	88	58	40	11	79	20
Total	**9**	**12**	**26**	**54**	**21**	**10**	**1**	**2**	**3**
QoQ %									
Fees & Commission Income	77	26	1	(23)	27	3	11	(5)	8
Forex & derivatives	28	0	56	36	(28)	9	(6)	41	(25)
Gain on sale/revaluation of invts	(6)	9	(41)	(8)	12	55	(104)	3,155	(81)
Misc. income, incl. recoveries	79	38	30	(42)	51	22	4	(6)	2
Total	**49**	**22**	**2**	**(17)**	**18**	**11**	**(7)**	**(16)**	**19**

Source: Company data, I-Sec research

Table 9: HDFC Securities PAT flat YoY as well as QoQ

(Rs mn, year ending March 31)

HDFC Securities Limited	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY % chg	QoQ % chg
Total Income	4,895	5,356	5,097	4,325	4,682	-4.4%	8.3%
PAT	**2,396**	**2,580**	**2,356**	**1,893**	**1,909**	-20.3%	0.8%
Branches	213	213	216	216	215	0.9%	-0.5%
HDFC Bank stake in HDFC Securities (%)	96.2%	96.0%	96.0%	96.0%	95.3%	-91 bps	-71 bps

Source: Company data, I-Sec research

Table 10: HDB Financial Services earnings reflect gained disbursement momentum and improved asset quality

(Rs mn, year ending March 31)

	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY % chg	QoQ % chg
HDFC Bank stake in HDB Financial (%)	95.1%	95.0%	95.0%	95.0%	94.9%	-20 bps	-10 bps
Total loanbook	6,00,080	6,04,780	6,13,260	6,18,140	6,31,120	5.2%	2.1%
Net revenue	19,167	19,816	21,414	21,938	22,013	14.8%	0.3%
Profit after tax	1,917	3,041	4,271	4,413	4,714	145.9%	6.8%
Gross Stage 3	6.10%	6.05%	4.99%	4.95%	4.88%	-122 bps	-7 bps
Tier I	14.3%	14.9%	15.2%	15.4%	16.0%	170 bps	60 bps
CAR	19.8%	20.3%	20.2%	20.3%	20.8%	99 bps	49 bps
Branches	1,336	1,328	1,374	1,403	1,407	5.3%	0.3%

Source: Company data, I-Sec research

Table 11: HDB coverage ratio improved to 6.8% in FY22 vs.4.4% in FY21

(Rs mn, year ending March 31)

HDB Financials	FY21		FY22	
	Rs mn	%	Rs mn	%
As per annual report				
Gross Stage-1	5,52,633	90.12%	5,61,422	91.55%
Gross Stage-2	33,009	5.38%	21,254	3.47%
Gross Stage-3	**27,609**	**4.50%**	**30,588**	**4.99%**
Gross AUM	6,13,251	100.00%	6,13,263	100.00%
Impairment loss allowance				
Gross Stage-1	13,061	2.36%	19,968	3.56%
Gross Stage-2	5,427	16.44%	5,113	24.05%
Gross Stage-3	**8,747**	31.68%	**16,558**	54.13%
Gross AUM	27,235	**4.44%**	41,639	**6.79%**

Source: Company data, I-Sec research

Q2FY23 earnings call key takeaways

- On a merger timeline, given the pace of approval it seems to be quarter or few months ahead of stipulated or guided timeframe.
- Advances grew 6.1% QoQ / 23.4% YoY and CD ratio as a result rose 150bps to 88.4%. Growth was primarily led by wholesale banking (27.0% YoY/9.0% QoQ) as well as commercial and rural banking (up 31.3% YoY/9.0% QoQ). It has let go of the opportunities to the extent of Rs450-500bn in wholesale due to competitive pricing. Retail advances too grew 20.2% YoY / 4.1% QOQ.
- Deposit and funding strategy is an important aspect and remains key focus area – branch led, relationship based and self-funding across product segments.
- The bank added 121 branches (over 36 branches in Q1) taking the total tally to 6,499 and added 8.5k employees in Q2 to 161k.
- Loss on sale / revaluation of investments came in at Rs 2.53bn (compared to Rs13.1bn QoQ) mainly from AFS investments in shorter term corporate securities and PTCs.
- Slippages during the quarter were Rs57bn – 1.9% annualized. Recoveries and upgrades were Rs25bn and write-offs were Rs30bn.

Opening remarks

- Continuous recovery in domestic activity, despite global risk, reflected in high frequency indicators
- Uneven monsoon, global slowdown and inflationary pressures are offsetting indicators.
- ***RBI hiked repo rate by 190bps since May'22 and bank has also raised lending rates and deposit rates.***

Developments with respect to merger

- NCLT has, in its order dated October 14, 2022, directed the Bank, to, inter alia, convene the meeting of its equity shareholders on November 25, 2022, for the purpose of considering and, if thought fit, approving with or without modification(s) the arrangement embodied in the Scheme.
- Post shareholders meeting, NCLT will evaluate the arrangement interacting with market participants and there will be a few hearings.
- On RBI dispensations that the bank has sought – ***it is still in dialogue with RBI and nothing concrete has happened.*** Dispensations are good to have but not necessary – merger is not contingent on this.
- ***On a merger timeline, given the pace of approval it seems to be quarter or few months ahead of stipulated timeframe.***

Strengthening distribution franchise

- Bank's distribution network was at 6,499 branches, 18,868 ATMs / CDMs across 3,226 cities / towns and 15,691 business correspondents.
- ***The bank added 121 branches (over 36 branches in Q1) taking the total tally to 6,499 and added 8.5k employees in Q2 to 161k.***

- Would not need similar additions. Will bring subsidiary sales force into bank for relationship management. 45k sales force out of 161k.
- ***Gold loan processing now rolled out through 2960 branches (almost 900 branches added in this quarter) – up 2.2x over Mar'22 and will take than to 5k branches.***
- 3.5mn payment acceptance points
- Wealth management now offered from 502 locations – 105 new locations added in the quarter
- 2.9mn liability relations – 22% YoY / 11% QoQ. On an average 2 mn liability customers acquired
- Closed 2.4mn cards that were inactive.

GNPAs moderated to 1.23% (vs 1.28%/1.17% in Q1FY23/Q4FY24); credit cost at 0.87% (0.91% QoQ), no contingency buffer created

- Asset quality moderated a tad QoQ with GNPAs coming off to 1.23% (vs 1.28% in Q1FY23). 19bps of standard assets included in GNPA as one of the other facility of borrower is NPA.
- ***Slippages during the quarter were Rs57bn – 1.6% annualized. Recoveries and upgrades were Rs25bn and write-offs were Rs30bn.***
- Retail NPAs were down to 1.13% (vs 1.18%) and corporate advances down to 0.57% (vs 0.64%). CRB (ex agri) was steady at 1.23%.
- Bank created loan loss provisioning of Rs32.4bn (specific loan loss provisioning of Rs30bn and general provisioning of Rs2.4bn) equivalent to 87bps credit cost (vs 91bps QoQ).
- ***There was no contingency buffer created this quarter. With this, we believe bank now carries floating provisions of Rs14.5bn and contingency provisions of Rs96.3bn (unchanged numbers QoQ). Now it carries 75bps of floating + contingency buffer.***

NII growth at 18.9% QoQ/7.9% QoQ

- Net interest income grew by 18.9% YoY/7.9% QoQ to Rs210bn.
- ***Core net interest margin was up 10bps to 4.1% (on total assets), and to 4.3% (on interest earning assets).***
- Operated at 4.0-4.5% - mix of product is important wherein retail is 45% and wholesale is 55%.
- In rates, there is a lead and lag effect.

Operating profit ex-treasury up 16.6% YoY/5.8% QoQ

- Within non-interest income, core fee income was up 17% YoY and 8% QoQ; forex revenues were up 9% YoY and down 25% QoQ, while other income at Rs110bn was up 20% YoY and 2% QoQ.
- Proportion of retail fee was further up to 93%.
- ***Loss on sale / revaluation of investments came in at Rs 2.53bn (compared to Rs13.1bn QoQ, but it was still higher as compared to gain of Rs 6.8bn in Q2FY22). Mainly from AFS investments in shorter term corporate securities and PTCs. Base rate that determines valuations of corporate bonds and***

PTCs are more on front end side and rates were up from 45-75bps in a quarter. Bond spreads have come off and were down to some extent but in valuation exercise it is floored.

- Miscellaneous income, including recoveries and dividend, were Rs 11bn (vs Rs9.1bn YoY).
- Due to relatively lower treasury loss, overall non-interest income was up 3% YoY and 19% QoQ.
- Operating expenses were up 21% / 6.9% QoQ to Rs112.2bn and cost-to-income ratio for the quarter was at 39.2%.
- Reported pre-provision Operating Profit (PPOP) was up 13% YoY/10% QoQ to Rs174bn. PPOP, excluding trading and Mark to Market losses, grew 16.6%.

Advance growth at 23.4% YoY led by retail and commercial & rural banking

- Advances grew 6.1% QoQ primarily led by wholesale banking as well as commercial/rural banking. On YoY basis, credit growth momentum improved further to 23.4%, well above overall sector growth rate. CD ratio as a result rose 150bps to 88.4%.
- Among loan categories, growth was primarily led by wholesale banking (27.0% YoY/9.0% QoQ) as well as commercial and rural banking that drives PSLC and rural book (up 31.3% YoY/9.0% QoQ). It has let go of the opportunities to the extent of Rs450-500bn.
- Retail advances grew 20.2% YoY / 4.1% QOQ– sequential momentum was led by personal loans (up 22.5% YoY/4.7% QoQ), home loans (up 22.8% YoY/5.4% QoQ), LAP (up 27.4% YoY/6.4% QoQ) and gold loans (up 16.3% YoY/7.1% QoQ).
- Bank purchased loans aggregating to Rs91.45bn (vs Rs 95.33 bn QoQ) through the direct assignment route from HDFC.
- SME businesses are present in 90% of the districts in the country.

On credit card portfolio growth

- Transactor driven spend and has good liquidity – liability balance is close to 5x and payon are quite high
- ***Credit line utilisation on cards is 70-80% of pre-covid levels***
- ***Spends transferring to loans is slightly picking up, but revolve rates yet to pick-up***
- Over a period of 2 years, chronic revolvers have come down
- 1-3 months revolvers is picking up – some initial signs of revolvers expected to grow.

Deposit and funding strategy is an important aspect and remains key focus area – branch led, relationship based and self-funding across product segments

- Building up momentum in deposit and distribution franchise. Branch addition has been slow in H1FY23 and analysing where maximum propensity of consumers is. 500 branches in pipeline in various stages of completion.
- Deposit growth momentum gained traction registering 19.0% YoY and 4.3% QoQ growth. Among deposits, retail deposits growth was strong at 20.5% YoY/5.5% QoQ.

- CASA ratio moderated to 45.0% vs 45.8% QoQ and 46.8% YoY with 15.4% YoY/3.4% QoQ growth in CASA deposits.
- Retail deposits constitute 83% of deposits.
- Deposits are being competitively priced with peers and it is not going to be rate driven accretion but relationship based.
- Past 2-3 cycles, through an interest rate cycle, it tends to expand balance sheet by 2.3-2.5x and that will continue.
- Market borrowings opportunistically happen.

<u>On technology and digitisation</u>

- Continues its momentum on technology and digital initiatives.
- Phone banking voice support is underway
- Payzapp 2.0 launched for closed group
- 261mn visits on website with unique visits being 30mn.
- LCR was 118%

<u>Other highlights</u>

- Tier 1 CAR was at 17.1% and Common Equity Tier 1 Capital ratio was at 16.3%.
- LCR is at 118%.

<u>HDB Financial Stage-3 stable improves to 4.88%; Q1FY23 PAT at Rs4.7bn; loans grew 2% QoQ</u>

- HDB Financial stage-3 assets improved to 4.88% (vs 4.95% / 4.99% / 6.05% in Q1FY23 / Q4 / Q3 FY22) – 1.1% impact of new RBI norms since last year. Trajectory of improvement should continue
- With respect to stress pool, secured book coverage is 46% and unsecured book coverage at 92%.
- It reported profit of Rs4.7bn (compared to profit of Rs4.41 bn in Q1FY23, Rs4.27bn in Q4FY22, Rs 3bn in Q3FY22, Rs1.9bn in Q2FY22, Rs1.3bn in Q1FY22 and FY21 PAT of 3.9bn)
- Momentum in disbursements gained significant traction and were up 8.5% QoQ to Rs98.6bn. Customer base increased 6% QoQ/33% YoY. Loan book gained traction being up 2% QoQ at Rs631bn with secured loan comprising 75% of the book.
- Cost to income was 38.4%.

<u>HDFC Securities</u>

- 4.14mn customers (vs 3.99mn in Q1)
- 91% of retail broking trades are originated digitally
- Net profit was Rs1.91bn.

Q1FY23 earnings call key takeaways

- Separate communication going on with the regulator regarding on some forbearance or phased compliance of regulatory requirement and regarding stake in subsidiaries/associates (HDB Financial and HDFC Life Insurance).
- Floating rate hike (EBLR, MCLR) started in May and repricing of most of them happens with 3 months reset and some will get re-priced even in 6 months. Loan book mix - 45% fixed and 55% floating (including 27-28% of repo linked loans and 13-14% of advances linked to T-bills).
- Retail and commercial & rural banking growth was robust. In wholesale segment, it let go of some opportunities to the tune of Rs 400-500bn due to rate dislocation and low competitive pricing by peers
- Will add substantial branches to the network this fiscal onwards. Cost to income is elevated as cost of scaling up retail is generally upfronted.

Opening remarks

- Much of this quarter has been about inflation, supply chain, rate hikes etc.
- See opportunities in market space in current environment
- Activity indicators indicate that economic activities continue to hold up despite risks
- ***RBI hiked repo rate by 90bps during the quarter and accordingly bank has responded with hike in lending rates***

RBI approval regarding the scheme of arrangement

- ***RBI approval is no objection to the scheme of amalgamation and it does not have anything to do with stakes in subsidiaries/associates.***
- ***Conditionalities attached with approval are includes following Banking Regulation Act and surrender of license once entities get merged etc.***
- ***It is separately communicating with regulators on some forbearance or phased compliance of regulatory requirement and regarding stake in subsidiaries/associates (HDB Financial and HDFC Life Insurance).***
- As per RBI regulations, bank can hold stake in insurance below 30% or above 50%. HDFC stake in HDFC Life is ~47.8% and it will increase to 50% if required or below 30% as suggested by RBI

On distribution network and customer franchise

- The bank added 36 branches and 10,932 employees during Q1FY23 and 725 branches and 29,038 employees during the past 12 months, bringing the branch network to 6,378 branches.
- Another ~250 branches are in pipeline
- *Branch build up is something which bank has to do from growth perspective*
- Gold loans now processed at 2,000+ branches vs. 1,300+ QoQ
- Acceptance points at 3.2mn, up >40% YoY
- 2.6mn new liability relationships, up 59% YoY and 10% QoQ

- ***Hiring depends on productivity and it will continue hiring as and when required***

On other income and opex

- Cost to income at 39.6% for full year pre-covid. As retail picks up, C/I is likely to increase.
- ***Variations will happen quarter to quarter for C/I but over a period of 3-5 years, cost to income will go to mid-30s***
- ***Cost-to-income ratio, excluding trading and MTM losses was at 38.6%***
- Treasury loss came in at Rs13.1bn compared to treasury loss of Rs 0.4bn in Q4FY22 and gain of Rs6bn in Q1FY22.
- ***AFS book has broadly 3 components – Corporate bonds, participation certificate primarily PSLC and G-Sec***
- Investment fluctuation reserve (IFR) is an appropriation of profits and bank has IFR which is >2%, ahead of requirement which is 2% of AFS+HFT portfolio
- Other income, excluding trading and MTM losses was up 35.4% YoY
- Within non-interest income, core fee income was up 38% YoY but down 4.8% QoQ; forex revenues were up 5.1% YoY and 41.1% QoQ, while other income at Rs108bn was up 79.0% YoY but down 6.5% QoQ.
- ***Tech spend stands at 8-9% of opex over a long term trend***

On advances

- Among loan categories, growth was primarily led by retail banking (21.5% YoY/5% QoQ) as well as commercial and rural banking (up 29% YoY/3% QoQ).
- 2W growth lower due to supply chain disruption during the quarter
- ***In wholesale segment, bank let go assets of Rs 400-500bn due to rate dislocation.*** During May first week post RBI rate hike, bank also hiked its interest rates. Due to this there were some old proposals at old rates. Post revision of its lending rates, bank let go these old loans proposals which were at lower rates.
- ***Xpress Auto loans is an end to end digital product which has gained good traction since its launch in Q1***
- *Given bank saw good growth in retail and CRD while wholesale was flat QoQ, bank says that if there is good opportunity in wholesale, then bank won't back off. It will grow aggressively in wholesale also if RoA/RoE is good.*

On CRB business growth

- CRB YoY loan growth at 28-29%
- Company wants to be present in more districts for CRB business
- Increase presence from 100k villages to 200k villages
- In addition to physical RM, it is also looking to add virtual RM for CRB business
- MSME being almost 1/3rd of GDP, bank believes there is immense opportunity for growth in this segment and credit penetration is low
- On CRB, SME now offered in 640 districts

On cards

- 1.2mn new cards issued, up 41% YoY and now cards base stands at 17.6mn
- ***Credit line utilisation on cards is 70-80% of pre-covid levels***
- ***Spends transferring to loans is slightly picking up, but revolve rates yet to pick-up***
- Over a period of 2 years, chronic revolvers have come down
- 22.4% mkt share in cards and 27.7% mkt share in cards spends.

On deposits

- On the liability side, deposits momentum gained traction registering 19.3% YoY and 2.9% QoQ growth. Among deposits, retail deposits growth was strong at 18.5% YoY/3.5% QoQ.
- TD rates - bank has increased it over the past 2 months. Price sensitivity of the customer and competitive pricing are the factors to determine price.

On loans linked to EBLR

- ***EBLR re-pricing is ~3 months for most of the loans linked to EBLR***
- Re-pricing started in May and it's a cycle with most of them being 3 months and some will get re-priced at 6 months
- ***Loan book mix - 45% fixed and 55% floating***
- 48% of 55% (which is 27-28%) of total book is repo and 13-14% of total bank book is T-bill linked

On asset quality

- ***GNPA includes 18bp of exposure which is standard with another lender***
- ***GNPA (ex-agri and one-offs) at 1.03% vs. 1.26% YoY and 1.01% QoQ***
- ***Slippages at 0.5% amounting to Rs72bn while slippages(ex-agri) at 0.38%***
- Agri slippages have been higher in June and December quarter in-line with historical trend
- ***Recoveries and upgrades at Rs30bn, W/off at Rs 24bn (17bp)***
- ***No sale to ARC during the quarter***
- ***Cheque bounce rates continues to remain below pre-covid levels for all retail segments***
- ***Restructuring - 76bps at ~Rs100bn.***
- ***Credit cost at 0.91% vs. 1.67% YoY and 0.96% QoQ***
- ***Total credit cost net of recoveries at 0.68% vs. 1.53% YoY and 0.7% QoQ***

Others

- ***Looking to do PSL organically as it gives the best returns - bank is looking to get more than 2/3rd organically and for balance, bank can look for PSLC and RIDF. Overall, no pre-determined formula for organic PSL/PSLC/RIDF, but depends on return, cost and instruments.***
- ***RoA at 1.8% and 2.0% (ex-treasury loss) and*** RoE at 17%

- ***Payzapp 2.0 to launch in Q2FY23***
- ***Balance sheet continues to remain resilient***
- Avg LCR at 108%
- CAR at 18.1%, CET 1 at 16.5%

HDB Financial Services

- **Rs90bn disbursements, up >100% YoY (despite traditionally lower disbursements in Q1) and loan book at Rs 618.13bn of which 76% is secured**
- Cost to net income for lending business at 37%
- ***Provision for contingency - Rs3.98bn vs. Rs 4.22bn QOQ and Rs 8.7bn YoY***
- ***Stage3 - 4.95% (including 1.18% impact of new RBI guidelines issued in November)***
- ***PCR at48% and 92% respectively on secured and unsecured book respectively***
- EPS at 5.58 and BV at 125
- Company remains well capitalised with CAR of 20%
- Well positioned to sustain increase in disbursements across segments

HDFC Securities

- 216 branches across 147 cities/towns
- 3.99mn customers base, up 41% YoY
- ***Rs 119.5 EPS and Rs 1,069 BV***

Chart 3: Higher NII boosts RoA

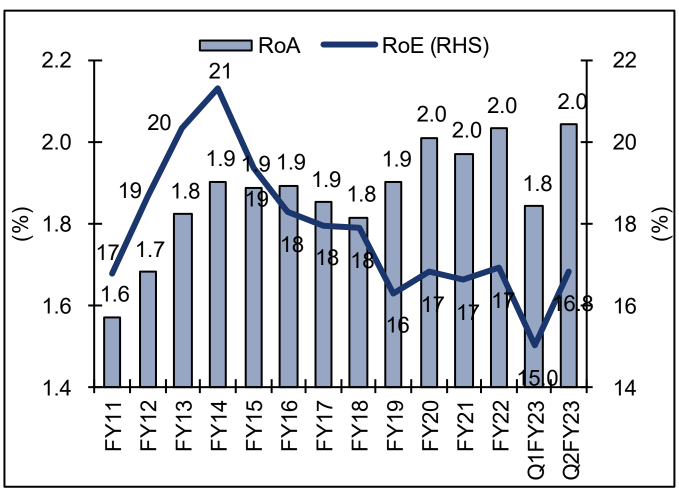
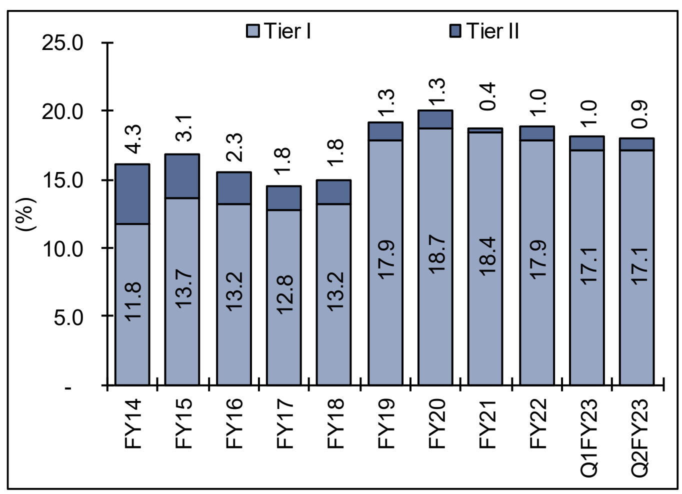
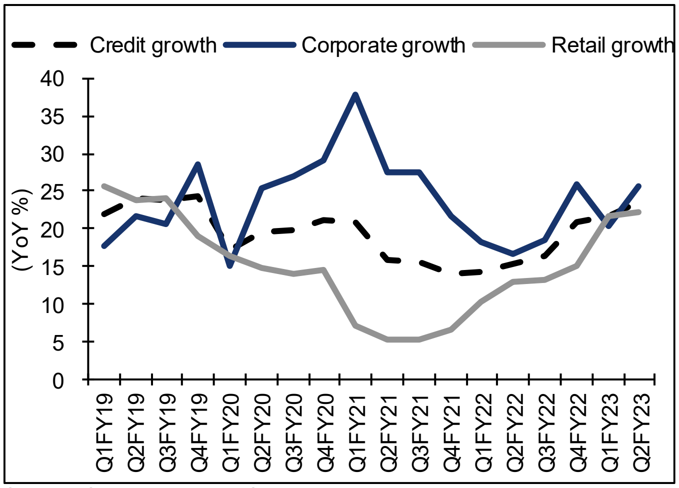


Chart 4: Well capitalised despite no recent capital raise



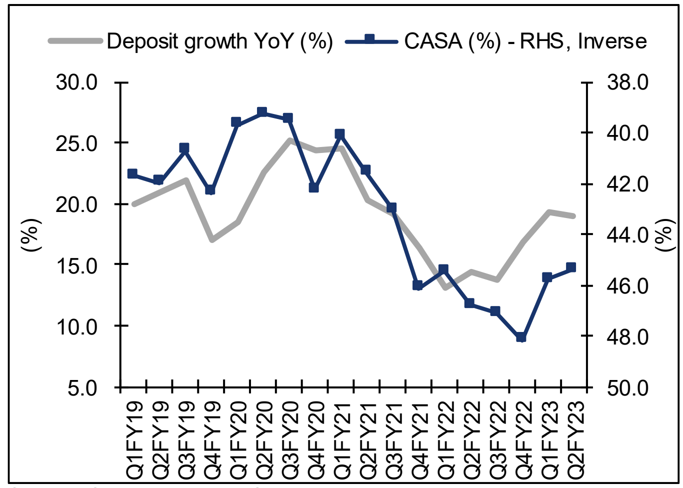
Source: Company data, I-Sec research

Chart 5: Growth was primarily led by wholesale and CRB



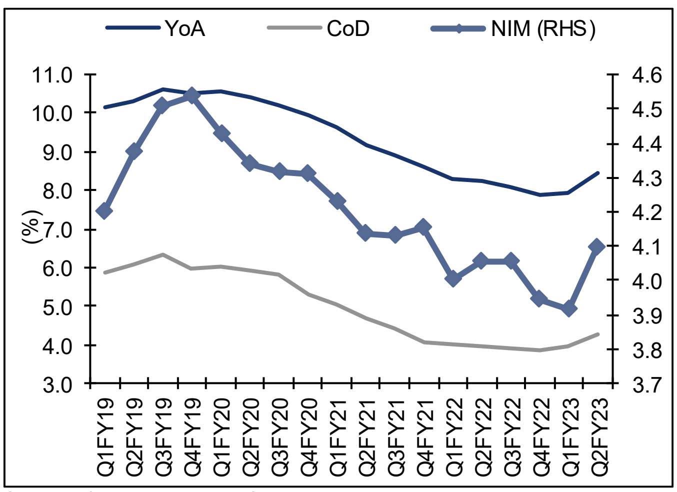
Source: Company data, I-Sec research

Chart 6: CASA ratio moderated to 45.4% vs 45.8% QoQ



Source: Company data, I-Sec research

Chart 7: With repricing benefit, NIM expansion was better than expected



Source: Company data, I-Sec research

Chart 8: Cost to income higher as lending picks up and due to treasury loss

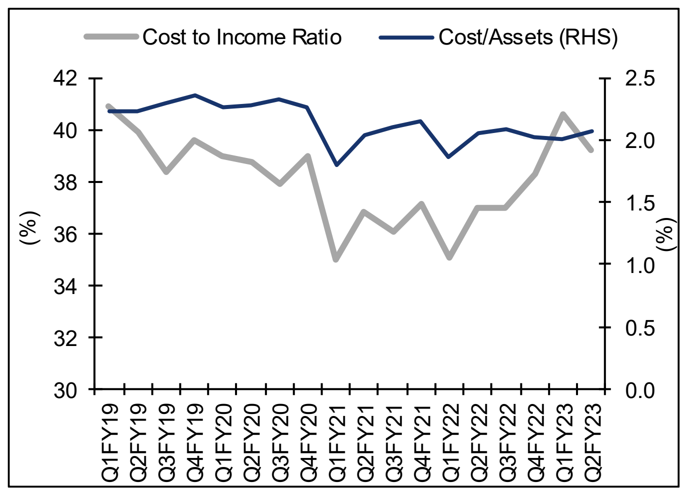
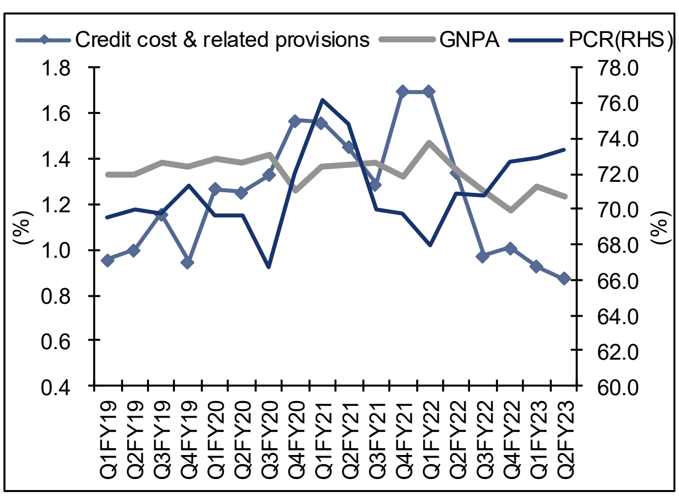


Chart 9: GNPA down 5bps QoQ to 1.23%



Source: Company data, I-Sec research

Chart 10: Credit cost at 0.87% primarily towards specific provisioning

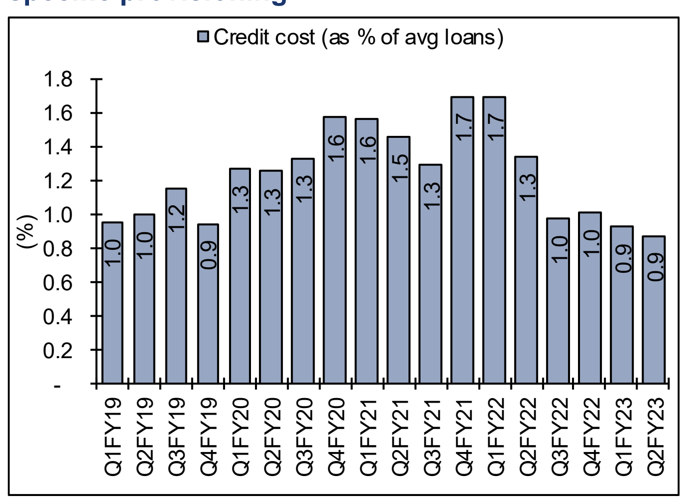
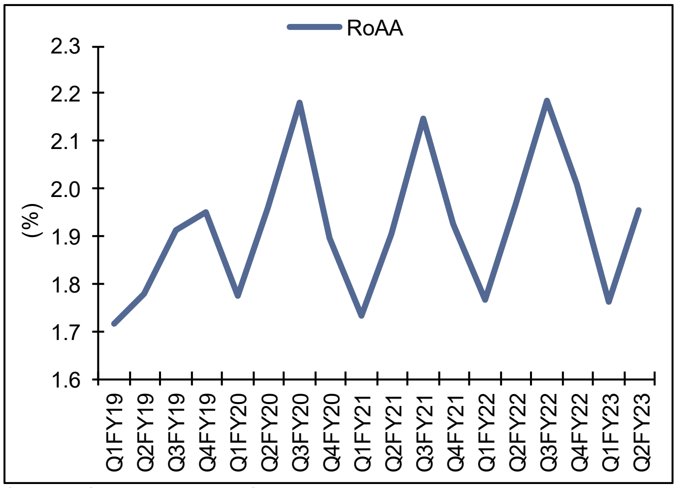
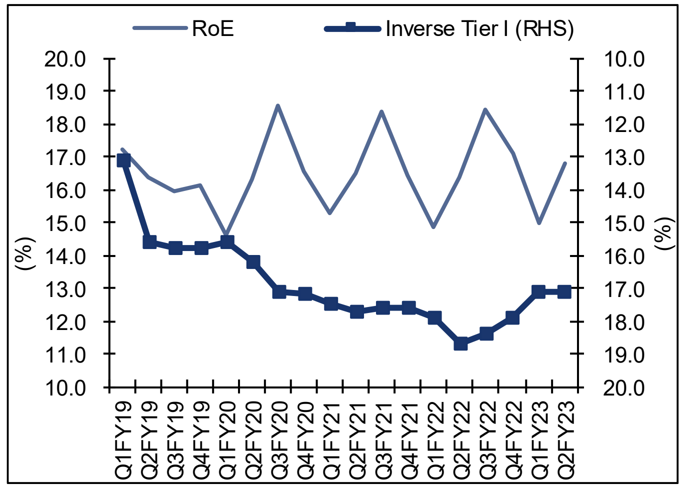


Chart 11: RoAA recovers from lows

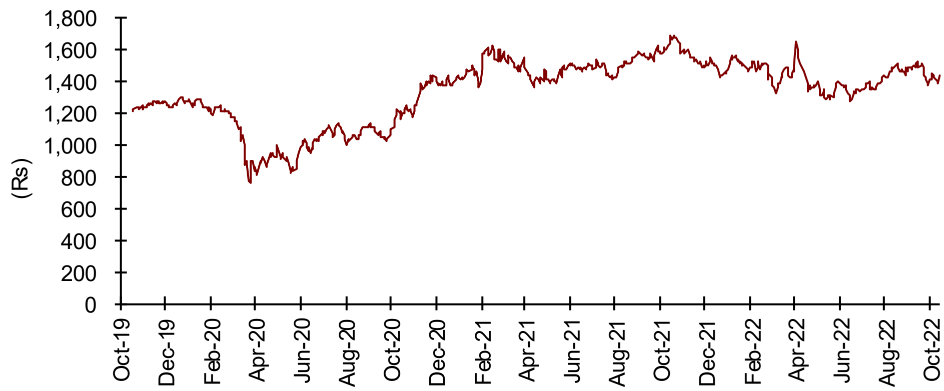


Source: Company data, I-Sec research

Chart 12: RoE improves aided by higher NII



Price chart



Source: Bloomberg

Financial summary

Table 12: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	3,31,392	4,00,949	4,82,432	5,61,862	6,48,796	7,20,096	8,41,519	10,22,783
% Growth	20	21	20	16	15	11	17	22
Fee income	88,116	1,13,939	1,38,055	1,63,337	1,61,692	1,95,367	2,38,348	2,81,250
Add: Other income	34,849	38,264	38,203	69,273	90,357	99,732	88,990	1,15,155
Total Net Income	**4,54,357**	**5,53,152**	**6,58,691**	**7,94,473**	**9,00,845**	**10,15,195**	**11,68,857**	**14,19,188**
% Growth	18	22	19	21	13	13	15	21
Less: Operating Expenses	(1,97,033)	(2,26,904)	(2,61,194)	(3,06,975)	(3,27,226)	(3,74,422)	(4,49,306)	(5,25,688)
Pre-provision operating profit	**2,57,324**	**3,26,248**	**3,97,497**	**4,87,497**	**5,73,618**	**6,40,773**	**7,19,550**	**8,93,500**
NPA Provisions	**(31,453)**	**(49,104)**	**(63,941)**	**(90,893)**	**(46,716)**	**(1,01,049)**	**(1,17,416)**	**(1,63,712)**
Other provisions	(4,480)	(10,171)	(11,560)	(30,531)	(1,10,312)	(49,570)	(16,643)	(23,644)
PBT	**2,21,391**	**2,66,973**	**3,21,997**	**3,66,074**	**4,16,590**	**4,90,153**	**5,85,492**	**7,06,144**
Less: taxes	(75,894)	(92,106)	(1,11,215)	(1,03,498)	(1,05,425)	(1,20,541)	(1,47,368)	(1,77,737)
PAT	**1,45,496**	**1,74,867**	**2,10,782**	**2,62,575**	**3,11,166**	**3,69,612**	**4,38,123**	**5,28,408**
% Growth	18	20	21	25	19	19	19	21

Source: Company data, I-Sec research

Table 13: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	5,125	5,190	5,447	5,483	5,513	5,546	5,546	5,546
Reserve & Surplus	8,89,498	10,57,760	14,86,617	17,04,377	20,31,695	23,95,384	27,91,334	32,77,568
Deposits	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,55,92,174	1,86,32,648	2,23,59,178
Borrowings	7,39,588	10,19,980	11,70,851	14,46,285	13,54,873	18,48,172	20,00,005	22,79,405
Other liabilities	5,67,793	6,68,707	5,51,083	6,73,944	7,26,022	8,44,075	8,60,956	8,78,176
Total liabilities	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,42,90,489**	**2,87,99,872**
Cash & Bank Balances	4,89,521	12,29,151	8,13,476	8,66,187	11,94,704	15,23,269	14,01,073	14,52,861
Investment	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	45,55,357	52,38,661	61,81,619
Advances	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,36,88,209	1,66,10,591	2,02,40,411
Fixed Assets	36,267	36,072	40,300	44,319	49,093	60,837	63,744	68,935
Other Assets	4,22,298	3,68,787	4,91,740	5,39,311	4,59,259	8,57,678	9,76,421	8,56,046
Total Assets	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,42,90,489**	**2,87,99,872**
% Growth	21.9	23.2	17.0	23.0	14.1	18.4	17.4	18.6

Source: Company data, I-Sec research

Table 14: Du Pont analysis

(%, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	8.8	8.3	8.6	8.3	7.4	6.7	6.8	6.9
Interest expense	(4.6)	(4.2)	(4.4)	(4.2)	(3.4)	(2.9)	(3.0)	(3.0)
NII	**4.2**	**4.2**	**4.2**	**4.0**	**4.0**	**3.8**	**3.7**	**3.9**
Other income	0.4	0.4	0.3	0.5	0.6	0.5	0.4	0.4
Fee income	1.1	1.2	1.2	1.2	1.0	1.0	1.1	1.1
Total income	**5.8**	**5.7**	**5.7**	**5.7**	**5.5**	**5.3**	**5.2**	**5.3**
Operating expenses	(2.5)	(2.4)	(2.3)	(2.2)	(2.0)	(2.0)	(2.0)	(2.0)
Operating profit	**3.3**	**3.4**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**3.4**
NPA provision	**(0.4)**	**(0.5)**	**(0.6)**	**(0.7)**	**(0.3)**	**(0.5)**	**(0.5)**	**(0.6)**
Total provisions	(0.5)	(0.6)	(0.7)	(0.9)	(1.0)	(0.8)	(0.6)	(0.7)
PBT	**2.8**	**2.8**	**2.8**	**2.6**	**2.5**	**2.6**	**2.6**	**2.7**
Tax	(1.0)	(1.0)	(1.0)	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)
PAT	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	**2.0**

Source: Company data, I-Sec research

Table 15: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data								
EPS – Diluted (Rs)	28.4	33.7	38.7	47.9	56.4	66.7	79.0	95.3
% Growth	16.7	18.7	14.9	23.7	17.9	18.1	18.5	20.6
DPS (Rs)	5.5	6.5	7.5	0.0	6.5	15.5	7.6	7.6
Book Value per share (BVPS) (Rs)	175	205	274	312	370	433	504	592
% Growth	21.4	17.3	33.8	13.8	18.5	17.2	16.5	17.4
Adjusted BVPS (Rs)	172	202	270	307	363	426	497	582
% Growth	21.2	17.0	34.0	13.7	18.1	17.5	16.6	17.2
Valuations								
Price / Earnings (x)	50.7	42.7	37.2	30.1	25.5	21.6	18.2	15.1
Price / Book (x)	8.2	7.0	5.3	4.6	3.9	3.3	2.9	2.4
Price / Adjusted BV (x)	8.4	7.1	5.3	4.7	4.0	3.4	2.9	2.5
Asset Quality								
Gross NPA (Rs mn)	58,857	86,070	1,12,242	1,26,500	1,50,860	1,61,410	2,19,066	2,94,467
Gross NPA (%)	1.1	1.3	1.4	1.3	1.3	1.2	1.3	1.4
Net NPA (Rs mn)	18,440	26,010	32,145	35,424	50,424	50,424	55,924	70,924
Net NPA (%)	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4
NPA Coverage ratio (%)	69	70	71	72	67	69	74	76
Gross Slippages (%)	1.5	2.3	2.2	2.1	1.6	1.8	2.0	1.8
Credit Cost (%)	0.7	1.0	1.0	1.3	1.5	1.2	0.9	1.0
Net NPL/Net worth	2.1	2.4	2.2	2.1	2.5	2.1	2.0	2.2
Business ratios (%)								
RoAA	1.9	1.8	1.8	1.9	1.9	1.9	1.9	2.0
RoAE	17.9	17.9	16.5	16.4	16.6	16.7	16.9	17.4
Credit Growth	19.4	18.7	24.5	21.3	14.0	20.8	21.3	21.9
Deposits Growth	17.8	22.5	17.0	24.3	16.3	16.8	19.5	20.0
CASA	48.0	43.5	42.4	42.2	46.1	48.2	49.8	50.8
Credit / Deposit Ratio	86.2	83.5	88.8	86.6	84.9	87.8	89.1	90.5
Cost-Income ratio	43.4	41.0	39.7	38.6	36.3	36.9	38.4	37.0
Operating Cost / Avg. Assets	2.5	2.4	2.3	2.2	2.0	2.0	2.0	2.0
Fee Income / Avg Assets	1.1	1.2	1.2	1.2	1.0	1.0	1.1	1.1
Earnings ratios								
Yield on Advances	10.2	10.3	10.5	10.1	8.9	7.9	7.9	7.9
Yield on Earning Assets	9.3	8.7	8.9	8.6	7.6	7.0	7.1	7.2
Cost of Deposits	5.3	4.6	4.8	4.9	3.8	3.2	3.2	3.3
Cost of Funds	5.5	4.9	5.2	5.0	4.1	3.5	3.6	3.6
NIM	4.5	4.4	4.4	4.2	4.1	3.9	3.9	4.0
Capital Adequacy (%)								
RWA (Rs Bn)	6,400	7,574	9,445	11,546	12,998	15,768	18,846	22,366
Tier I	12.8	14.6	16.5	15.6	16.0	15.5	15.1	14.9
CAR	14.6	16.7	18.5	17.6	16.9	16.3	15.7	15.5

Source: Company data, I-Sec research

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