

BFSI | Q2FY23 Result Update

Near term NIM outlook improves; Undemanding Valuation

- HDFC bank posted strong NII growth (19%/8% YoY/QoQ) with 10 bps sequential expansion in reported NIM. Despite continued treasury losses, bank managed RoA of 2% in 2QFY23. Calculated NIM was at its highest in the last 6 quarters.
- Asset quality fared well with GNPA lower QoQ and steady PCR. ~25% of opening restructured book slipped to NPA in H1FY23, though overall slippages/credit costs were contained at 1.5% and 90 bps resp.
- We believe the merger aids long-term growth prospects and that the bank can deliver ~1.9-2% RoA on a sustained basis. Further, the bank received NCLT nod for holding shareholder meeting regarding approval of the proposed merger.
- Rolling over to Sep24E, maintain BUY with revised TP of Rs.1950, valuing the stock at 3x Sep-24E P/ABV. Earnings upgraded by 4-5%. The bank trades at undemanding valuation of 2.2x Sep-24E ABV.

Higher than anticipated expansion in NIM

Despite a strong sequential growth in wholesale book and rise in CoF by 28bps, NIM expanded by 10 bps QoQ, benefiting from re-repricing of EBLR loans. In the near term, NIM is likely to benefit from rising interest rates and slower than expected moderation in CD ratio.

Healthy deposits traction pre-merger

Deposit accretion continues to remain robust with market share gains and rise in retail mix (at 83% of deposits). CASA growth was healthy at 15% YoY, even as TD share strengthened in deposit mix. Deposits grew by 7% in H1 vs 3-4% for the system. Only 14% of bank's customers have TDs, therefore the opportunity on deposits is significant.

Merger process update

Post the shareholder approval, to be convened on Nov 25 this year, the bank will file a petition with NCLT. NCLT will retrieve NOC from various agencies, which is a long drawn process, and could take 6-8 months. Post this, the bank will receive sanction from NCLT. On RBI exemptions, the bank is in a continuous dialogue with RBI, but there is no clarity as yet.

Q2FY23 Result (Rs Mn)

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Net interest income	210,212	176,844	18.9	194,814	7.9
Other income	75,956	74,008	2.6	63,882	18.9
Total Net Income	286,167	250,852	14.1	258,697	10.6
Operating expenses	112,246	92,779	21.0	105,018	6.9
Pre-provision profits	173,922	158,073	10.0	153,678	13.2
Provisions	32,401	39,247	(17.4)	31,877	1.6
Tax expense	35,463	30,483	16.3	29,841	18.8
Reported Net Profit	106,058	88,343	20.1	91,960	15.3
			(bps)		(bps)
Advances Growth YoY (%)	23.4	15.5	790	21.6	180
NIM (%)	4.1	4.1	4	3.9	18
RoA (%)	2.0	2.0	1	1.8	21
RoE (%)	17.2	16.7	44	15.0	217
Gross NPA (%)	1.2	1.4	(12)	1.3	(5)

CMP	Rs 1,439
Target / Upside	Rs 1,950 / 36%
NIFTY	17,186

Scrip Details

Equity / FV	Rs 5,546mn / Rs 1
Market Cap	Rs 8,015bn
	USD 97.3bn
52-week High/Low	Rs 1,725/ 1,272
Avg. Volume (no)	6,511,500
Bloom Code	HDFCB IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	6	(15)
Rel to NIFTY (%)	(2)	(2)	(9)

Shareholding Pattern

	Mar'22	Jun'22	Sep'22
Promoters	25.8	25.7	25.8
MF/Banks/FIs	24.7	27.3	27.2
FII's	35.6	32.3	32.3
Public / Others	13.6	14.7	14.7

Valuation (x)

	FY23E	FY24E	FY25E
P/E	17.8	15.8	14.0
P/ABV	2.9	2.5	2.1
ROAA	2.0	1.9	1.9
ROAE	17.3	16.8	16.3

Estimates (Rs bn)

	FY23E	FY24E	FY25E
NII	853.8	980.3	1,111.9
PPOP	719.2	835.0	966.8
PAT	448.7	505.3	569.6
Adj BV (Rs)	502.9	583.1	674.9

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Risks to our view: Weaker than anticipated macro-economic trends could adversely impact growth and asset quality, lower than expected NIM.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	210,212	207,288	1.4
Operating Profit	173,922	174,398	(0.3)
PAT	106,058	109,783	(3.4)

Source: Company, DART

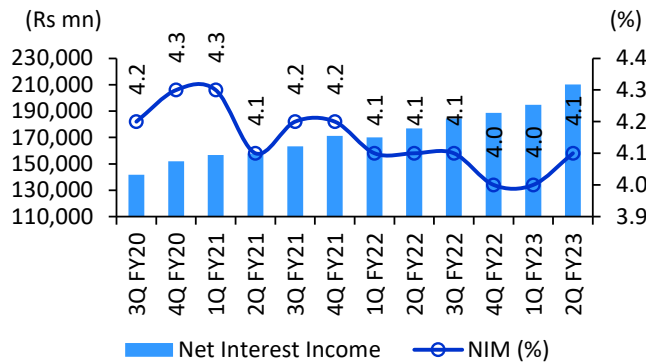
Exhibit 2: Change in estimates

Particulars (Rs mn)	Previous		Revised		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Oper. Revenues	1,166,747	1,369,608	1,173,582	1,377,362	0.6	0.6
Pre Provision Profits	712,359	821,030	719,193	834,984	1.0	1.7
PAT	425,908	486,617	448,694	505,336	5.4	3.8

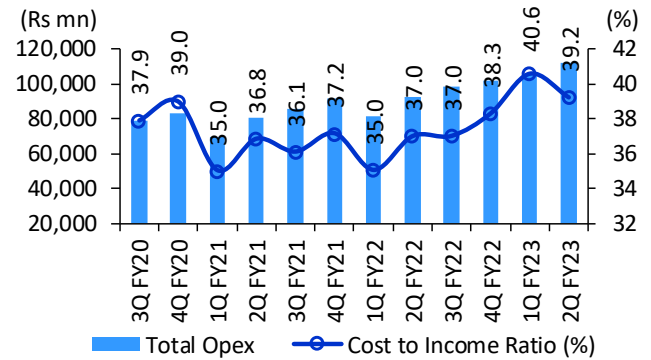
Source: Company, DART

Earnings Call KTAs

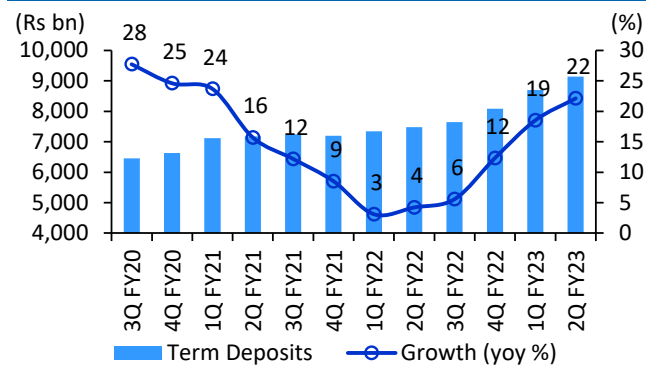
- **Advances growth:** Growth supported by increased domestic demand. SME lending covers 90% of country's districts. On wholesale book- 25-30k cr corporate loans were given up due to competitive pricing. 55% of the book is floating rate. Gold loans are now available in 2960 branches vs 2000 in Q1. Self-funding ratio of commercial banking (ex- agri) is 80-85% with more than 85-90% secondary collateral.
- **Deposits Strategy:** Continues to be branch led, relationship based. Self-funded expansion aids growth. Pricing of time deposits is in line with the pvt. sector peers, however slightly higher/lower from PSB peers in different buckets. Yield curve for time deposits is upward sloping.
- **Tech initiatives:** New apps launched during the quarter for improved digital processes. Merchant Vyapaar, Payzapp 2.0 and HDFC Bank 1 apps launched with improved customer onboarding and support functions. ~60k merchants are added on the Vyapaar platform every month. Total merchant base of 1.6bn.
- **Profitability:** 93% of fee income comes from the retail book. Treasury losses are mainly from corporate bonds and PTC's. Increase in headcount (mainly shift of employees from subsidiaries to bank) in line with branch expansion plans. C/I ratio to increase to 40% led by technology investments. 93% of fee income continue to come from retail book.
- **Asset Quality:** Improved GNPA ratios at 1.23% include 0.19% of std assets. Slippages at 0.36% or Rs57bn and write-offs at 0.22% or Rs30bn, there were no sale of assets to ARCs. Recoveries/Upgradations stood at 0.19% or Rs.25bn for the quarter. Credit costs environment remains benign. Covid RSA at 0.53% or Rs.18.5bn.
- **Branch openings:** Slight lag in 1H, however ramp up expected in second half. 500 branches in pipeline for coming months. Average breakeven point for each branch is 18-20 months.
- **Others:** Liability balance of card customers is ~5 times the loan balance. Improved customer spends due to increased liquidity. However, revolver rates remain at 70-75% of pre-covid levels. 2mn new liability customers and 1.2mn card customers added during the quarter. 261mn visits on website in 2Q23.
- **HDB Financial:** 75% of loans are secured, PCR at 46% and 93% for secured and unsecured books respectively. Asset quality on continuous improvement trajectory.

Exhibit 3: Higher than anticipated NIM expansion


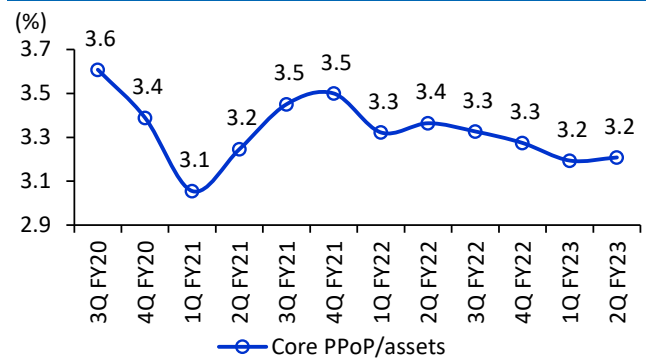
Source: Company, DART

Exhibit 4: Improved earnings aid C/I


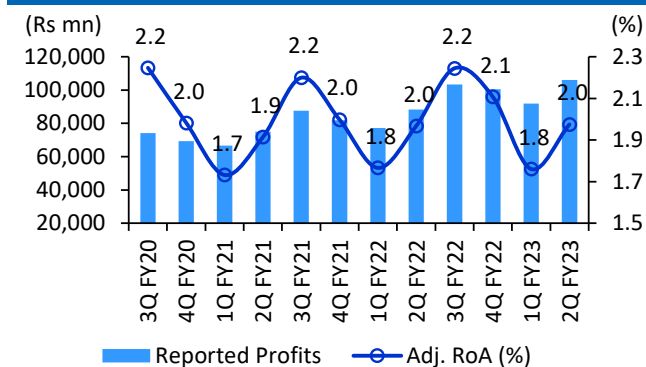
Source: Company, DART

Exhibit 5: Healthy traction in term deposits


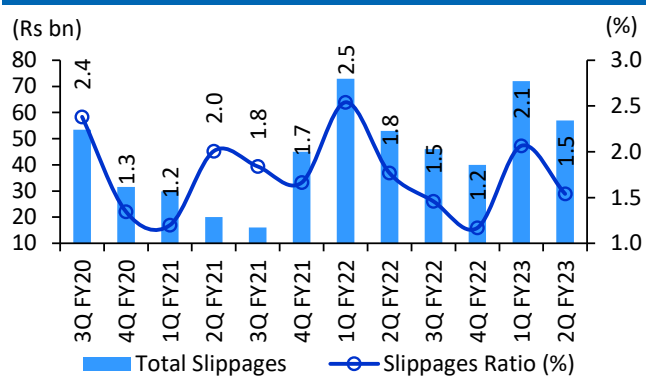
Source: Company, DART

Exhibit 6: Core/PPoP to assets strengthen QoQ


Source: Company, DART

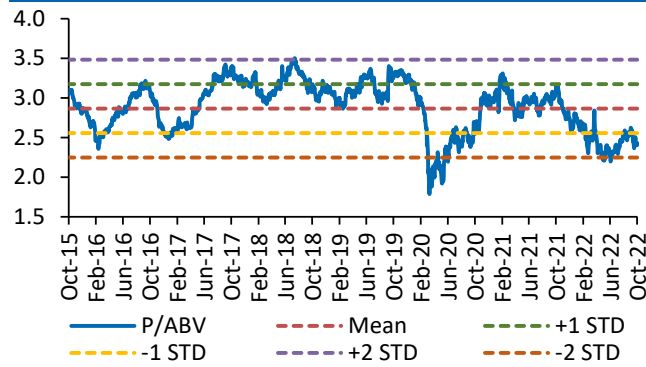
Exhibit 7: ROAs likely to remain steady at 1.9-2%


Source: Company, DART

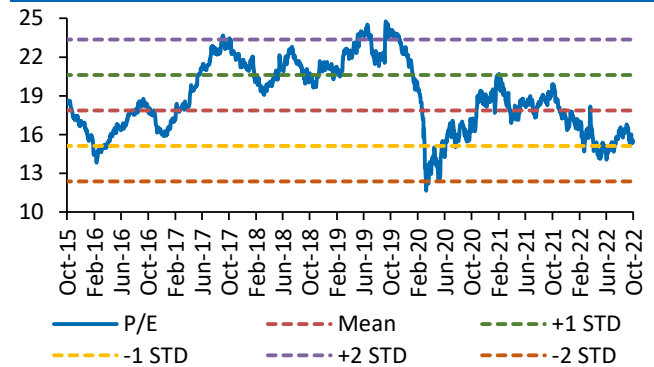
Exhibit 8: Slippages in-line with expectations


Source: Company, DART

Exhibit 9: The bank trades at 2.5x 1-yr forward P/ABV and 16.2x 1-yr forward P/E



Source: DART, Company



Source: DART, Company

Quarterly Financials

Profit and Loss (Rs mn)	Q2FY23	Q2FY22	% YoY / bps	Q1FY23	% QoQ / bps	1HFY23	1HFY22	% YoY / bps
Interest Income	385,864	313,534	23.1	351,720	9.7	737,584	618,363	19.3
Interest Expenses	175,652	136,690	28.5	156,906	11.9	332,558	271,430	22.5
Net Interest Income	210,212	176,844	18.9	194,814	7.9	405,026	346,934	16.7
NII to Net Operative Income	73.5	70.5	296	75.3	(185)	74.3	71.7	263
NIM (%)	4.1	4.1	-	4.0	10	-	4.1	-
Fees & commissions	58,029	49,459	17.3	53,604	8.3	111,633	88,313	26.4
FX & Derivatives	9,478	8,673	9.3	12,593	(24.7)	22,071	20,660	6.8
Profit on Sale / Rev of Investments	(2,531)	6,755	(137.5)	(13,117)	(80.7)	(15,648)	12,765	(222.6)
Miscellaneous income	10,979	9,121	20.4	10,802	1.6	21,781	15,156	43.7
Other Income - Total	75,956	74,008	2.6	63,882	18.9	139,838	136,893	2.2
Other Income to Net Operative Income	26.5	29.5	(296)	24.7	185	25.7	28.3	(263)
Net Operating Revenue	286,167	250,852	14.1	258,697	10.6	544,864	483,826	12.6
Employee Expenses	35,238	29,671	18.8	35,002	0.7	70,241	57,326	22.5
Empl. Cost/Oper. Exps.	12.3	11.8	49	13.5	(122)	12.9	11.8	104
Other Opex	77,007	63,108	22.0	70,016	10.0	147,023	117,057	25.6
Other Opex/ Assets	0.4	0.4	1	0.3	2	0.7	0.7	3
Total Opex	112,246	92,779	21.0	105,018	6.9	217,264	174,383	24.6
Cost to Income Ratio (%)	39.2	37.0	224	40.6	(137)	39.9	36.0	383
Pre-Provision Profits	173,922	158,073	10.0	153,678	13.2	327,600	309,443	5.9
Provisions & Contingencies - Total	32,401	39,247	(17.4)	31,877	1.6	64,279	87,555	(26.6)
NPA Provisions as % Oper. Income	18.6	24.8	(620)	20.7	(211)	19.6	28.3	(867)
Profit Before Tax	141,520	118,826	19.1	121,807	16.2	263,334	221,901	18.7
Tax	35,463	30,483	16.3	29,841	18.8	65,304	56,249	16.1
Effective Tax Rate (%)	25.1	25.7	(60)	24.5	56.0	24.8	25.3	(55)
Reported Profits	106,058	88,343	20.1	91,966	15.3	198,030	165,653	19.5
RoA (%)	2.0	2.0	4	1.8	20.0	1.9	1.9	-
Basic EPS	19.1	16.0	19.5	16.6	14.9	35.7	30.0	19.1

Balance Sheet Analysis	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	QoQ % / bps	YoY % / bps
Net Worth	2,124,879	2,187,101	2,296,396	2,400,929	2,502,849	2,541,114	1.5	16.2
CET1 (%)	17.2	17.4	17.1	16.7	16.5	16.3	(20)	(110)
Tier 1 (%)	17.9	18.7	18.4	17.9	17.1	17.1	-	(160)
Total CAR (%)	19.1	20.0	19.5	18.9	18.1	18.0	(10)	(200)
RWA - Total	11,535,590	11,902,700	12,674,260	13,535,110	13,984,420	1,477,855	(89.4)	(87.6)
Advances - Total	11,476,516	11,988,374	12,608,628	13,688,209	13,950,677	14,798,732	6.1	23.4
Investments	4,361,316	4,162,926	4,225,853	4,555,357	4,961,567	5,191,159	4.6	24.7
Total Assets	17,539,411	18,448,447	19,382,860	20,685,351	21,097,715	22,278,934	5.6	20.8
RoA (%)	1.80	2.00	2.24	2.08	1.84	2.04	20	4
Deposits	13,458,293	14,063,433	14,459,181	15,592,174	16,047,600	16,734,080	4.3	19.0
Saving Deposit	4,261,320	4,523,810	4,710,290	5,117,390	5,140,630	5,297,450	3.1	17.1
Current Deposit	1,856,690	2,058,510	2,101,950	2,393,110	2,205,840	2,299,510	4.2	11.7
CASA Deposits	6,118,010	6,582,320	6,812,240	7,510,500	7,345,000	7,595,000	3.4	15.4
CASA Ratio (%)	-	46.8	47.0	48.0	45.8	45.4	(40)	(140)
Term Deposits	7,340,283	7,481,110	7,646,930	8,081,680	8,701,130	9,137,120	5.0	22.1

Movement of NPA (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	QoQ % / bps	YoY % / bps
Gross Advances	11,631,639	12,108,200	12,709,167	13,688,237	14,088,805	14,878,862	5.6	22.9
Gross NPA	170,985	163,461	160,136	161,410	180,337	183,010	1.5	12.0
Gross NPA Ratio (%)	1.47	1.35	1.26	1.18	1.28	1.23	(5)	(12)
PCR - Calculated (%)	67.9	70.9	70.8	72.7	72.9	73.3	42	241
Net Advances	11,428,750	11,887,725	12,639,919	13,774,000	13,964,943	14,795,970	6.0	24.5
Net NPA	54,858	47,551	46,768	44,077	48,877	48,827	(0.1)	2.7
Net NPAs Ratio (%)	0.48	0.40	0.37	0.32	0.35	0.33	(2)	(7)
Reported Profits	77,296	88,343	103,422	100,552	91,966	106,058	15.3	20.1
RoA (%)	1.80	2.00	2.24	2.08	1.84	2.04	20	4

Loan Book Analysis (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	QoQ % / bps	YoY % / bps
Personal Loans	1,204,660	1,263,580	1,333,990	1,401,270	1,479,280	1,548,200	4.7	22.5
Auto	919,100	951,950	964,260	1,004,630	1,040,030	1,087,880	4.6	14.3
Home Loans	722,350	757,540	789,920	830,560	882,490	930,500	5.4	22.8
PL/ Credit Card	630,920	677,830	733,050	767,570	801,420	819,660	2.3	20.9
Loan against Property	516,960	544,260	577,360	622,480	651,160	693,130	6.4	27.4
Two Wheelers	95,260	97,130	92,880	92,880	91,950	95,970	4.4	(1.2)
Gold Loans	82,130	81,090	81,980	83,500	88,080	94,340	7.1	16.3
other retail Loans	411,370	456,040	484,070	514,790	544,400	535,800	(1.6)	17.5
CRB (Ex Agri)	3,362,280	3,590,200	3,841,950	4,201,910	4,364,850	4,744,620	8.7	32.2
Agriculture	501,050	560,040	560,310	645,450	615,790	702,780	14.1	25.5
Wholesale Banking	3,146,210	3,124,230	3,261,820	3,640,110	3,639,390	3,967,790	9.0	27.0
Total	11,592,310	12,103,890	12,721,600	13,805,150	14,081,740	14,932,520	6.0	23.4

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY22A	FY23E	FY24E	FY25E
Interest Income	1,277,531	1,559,118	1,844,354	2,133,979
Interest expenses	557,435	705,290	864,047	1,022,117
Net interest income	720,096	853,828	980,308	1,111,861
Other incomes	295,099	319,754	397,055	473,292
Total expenses	374,422	454,388	542,378	618,311
- Employee cost	120,317	144,380	170,369	194,220
- Other	254,105	310,008	372,010	424,091
Pre provisioning profit	640,773	719,193	834,984	966,842
Provisions	150,618	119,655	159,762	205,695
Profit before taxes	490,155	599,538	675,222	761,148
Tax provision	120,541	150,844	169,886	191,505
Profit after tax	369,613	448,694	505,336	569,643
Adjusted profit	369,613	448,694	505,336	569,643

Balance Sheet (Rs Mn)

Particulars	FY22A	FY23E	FY24E	FY25E
Sources of Funds				
Equity Capital	5,546	5,546	5,546	5,546
Reserves & Surplus	2,395,384	2,783,487	3,228,233	3,737,285
Minority Interest	0	0	0	0
Net worth	2,400,929	2,789,033	3,233,778	3,742,830
Borrowings	1,848,172	1,835,713	1,881,721	2,164,020
- Deposits	15,592,174	18,561,102	21,639,796	24,886,232
- Other interest bearing liabilities	2	3	4	5
Current liabilities & provisions	844,075	1,155,633	1,049,913	928,309
Total Liabilities	20,685,350	24,341,482	27,805,208	31,721,392
Application of Funds				
Cash and balances with RBI	1,523,269	1,286,225	1,468,565	1,674,482
Investments	4,555,357	5,148,111	5,743,767	6,365,874
Advances	13,688,209	16,288,969	18,732,314	21,542,162
Fixed assets	60,837	74,358	85,169	97,173
Other current assets, loans and advances	857,678	1,543,819	1,775,392	2,041,701
Total Assets	20,685,350	24,341,482	27,805,208	31,721,392

E – Estimates

Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
(A) Margins (%)				
Yield on advances	7.9	8.2	8.4	8.5
Yields on interest earning assets	7.0	7.3	7.6	7.7
Yield on investments	5.8	6.1	6.2	6.3
Costs of funds	3.5	3.7	3.9	4.0
Cost of deposits	3.9	3.7	4.0	4.1
NIMs	3.9	4.0	4.0	4.0
(B) Asset quality and capital ratios (%)				
GNPA	1.2	0.9	0.8	0.6
NNPA	0.3	0.2	0.2	0.2
PCR	72.7	73.0	73.0	72.0
Slippages	2.4	1.7	1.7	1.8
NNPA to NW	1.8	1.4	1.2	1.0
CASA	48.2	47.0	46.0	46.0
CAR	18.9	17.3	16.8	16.6
Tier 1	17.9	16.5	16.1	15.9
Credit - Deposit	87.8	87.8	86.6	86.6
(C) Dupont as a percentage of average assets				
Interest income	6.7	6.9	7.1	7.2
Interest expenses	2.9	3.1	3.3	3.4
Net interest income	3.8	3.8	3.8	3.7
Non interest Income	1.5	1.4	1.5	1.6
Total expenses	2.0	2.0	2.1	2.1
- cost to income	36.9	38.7	39.4	39.0
Provisions	0.8	0.5	0.6	0.7
Tax	0.6	0.7	0.7	0.6
RoA	1.9	2.0	1.9	1.9
Leverage	8.6	8.7	8.6	8.5
RoE	16.7	17.3	16.8	16.3
RoRwa	2.7	2.6	2.5	2.4
(D) Measures of Investments				
EPS - adjusted	66.7	80.9	91.1	102.7
BV	432.9	502.9	583.1	674.9
ABV	432.9	502.9	583.1	674.9
DPS	9.0	9.0	9.0	9.0
Dividend payout ratio	2.0	3.0	4.0	5.0
(E) Growth Ratios (%)				
Net interest income	11.0	18.6	14.8	13.4
PPoP	11.7	12.2	16.1	15.8
Adj PAT	32.1	21.4	12.6	12.7
Advances	20.8	19.0	15.0	15.0
Total borrowings	36.4	(0.7)	2.5	15.0
Total assets	18.4	17.7	14.2	14.1
(F) Valuation Ratios				
Market Cap (Rs. mn)	8,015,230	8,015,230	8,015,230	8,015,230
CMP (Rs.)	1439	1439	1439	1439
P/E (x)	21.6	17.8	15.8	14.0
P/BV (x)	3.3	2.9	2.5	2.1
P/ABV (x)	3.3	2.9	2.5	2.1
Div Yield (%)	0.6	0.6	0.6	0.6

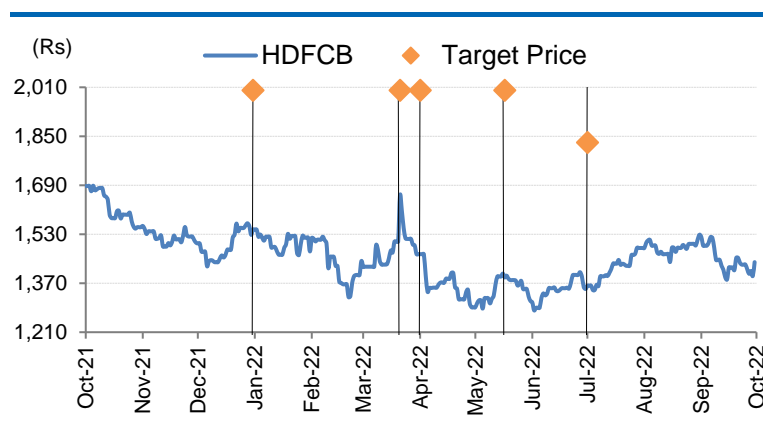
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-22	BUY	2,000	1,545
Apr-22	BUY	2,000	1,657
Apr-22	BUY	2,000	1,465
May-22	BUY	2,000	1,389
Jul-22	BUY	1,830	1,362

*Price as on recommendation date

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