



TM

HDFC Bank

16 January 2023

RESULT UPDATE

Sector: Banks Rating: HOLD

CMP: Rs 1,601 Target Price: Rs 1,642

Stock Info

Sensex/Nifty	57,920/17,014
Bloomberg	HDFCB IN
Equity shares	5,570mn
52-wk High/Low	Rs 1,722/1,272
Face value	Re 1
M-Cap	Rs 8,928bn/ USD 110bn
3-m Avg volume	USD 166mn

Financial Snapshot (Rs bn)

Y/E March	FY23E	FY24E	FY25E
NII	876	1,025	1,201
PPP	722	870	1,021
PAT	445	522	613
EPS (Rs)	80	94	110
EPS Gr. (%)	19.8	17.3	17.3
BV/Sh (Rs)	510	604	714
Adj. BV/Sh (Rs)	503	596	704

Ratios

NIM (%)	4.1	4.2	4.2
C/I ratio (%)	39.5	38.5	38.1
RoA (%)	2.0	2.0	2.0
RoE (%)	17.0	16.8	16.7
Payout (%)	17.37	17.37	17.37

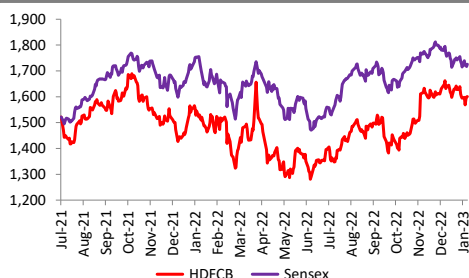
Valuations

P/E (x)	20.05	17.09	14.57
P/BV (x)	3.14	2.65	2.24
P/Adj. BV	3.18	2.69	2.27
Div. Yield (%)	0.9	1.0	1.2

Shareholding pattern (%)

	Mar'22	Jun'22	Sep'22
Promoter	25.8	25.7	25.6
-Pledged	-	-	-
FII	35.6	32.3	32.1
DII	24.6	27.1	27.6
Others	14.1	14.9	14.7

Stock Performance (1-year)



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In a capex investment mode; opex could remain elevated

In 3QFY23, HDFC Bank (HDFCB IN) performance was quite steady, should we exclude one-time gain (in terms of interest income on IT refunds at Rs 3.0bn, 5-6bps of assets), utilization of contingent provision (of ~Rs 2.0bn, ~4bps of assets) and higher employee expenses (8bps above the normalized run-rate) and higher than expected operating overheads (7bps more than the usual run-rate). The improvement in RoAA (by ~20bps Q-o-Q to 224bps) has come from higher non-interest income and lower credit cost, the elevated RoAA could be difficult to sustain, in our opinion.

As per the HDFCB's annual meet (in June'22), it's distinctly clear that it plans to add 1,500 – 2,000 branches each year for the next 3 years; in 9MFY23, HDFCB has added 841 branches and there're another ~600 branches in the pipeline to be added. Therefore, the operating cost metrics would not change much from the 3QFY23 level. Notably, HDFCB's mgmt. plans to double its branch counts in 3 years time frame.

HDFCB needs to improve its core net income matrix to counter higher operating costs and sustain high RoAA (at ~220bps). In our opinion, margin expansion in FY23E/ FY24E would be at 19bps/ 4bps respectively and therefore RoAA is likely to get compressed from the current level to 197bps - 199bps in FY23 & FY24. We maintain **HOLD** rating on the stock with a revised target price of Rs 1,642 (from the previous TP at Rs 1,536).

Retail and CRB continue to push credit book expansion

HDFCB posted credit growth at 1.8% Q-o-Q and 19.5% Y-o-Y; retail/ CRB/ corporate & wholesale segmental credit growths were at 4.5%/ 5.2%/ (-) 1.1% Q-o-Q respectively. Within the retail segment, secured and unsecured credit portfolios grew by 4.7% and 4.2% Q-o-Q respectively. In the secured retail segment, we find higher credit composition of home loans, LAP, and gold loans and on unsecured retail credit, personal loans credit composition increased at a faster pace while credit card receivables composition fell marginally on a sequential basis. The bank has acquired 1.2mn credit card customers in this quarter as compared to less than 1.0mn in the previous quarter. In CRB, commercial transportation and business banking segments witnessed higher credit growth. In the last 4 quarters, the bank has increased its focus on commercial banking and reduced credit composition in retail, agriculture, and corporate loans. Unlike other PVBs, HDFCB doesn't seem to be building credit risk in the last 4 quarters.

CA, SA deposit growth slow, term deposit mobilization continues to be robust

HDFCB's CASA deposit grew by 0.4% Q-o-Q & 12.0% Y-o-Y. CA deposits contracted by 1.0% and SA deposits grew by merely 1.0% Q-o-Q. CASA composition fell to 44% (from 45.4% Q-o-Q & 47.1% Y-o-Y). Retail deposits grew by 4.8% Q-o-Q & 21.3% Y-o-Y; its composition remains stable at 84%. Term deposit cost and total deposit cost increased by ~50bps and 30bps on a sequential basis; the PVBs banking group weighted average TD cost increased by 24bps in the first 2 months of 3QFY23.

Asset quality remains firm

HDFCB's asset quality remained stable with gross and net delinquency rates at ~215bps and ~114bps with stable provision cover at ~73%. It utilized a contingent provision of Rs 2.0bn and now it has a total contingent provision of Rs 108bn. During the quarter, the bank sold loans to ARCs of Rs 2bn.

Valuation & Recommendation

HDFCB's plans to invest in brick & mortar structure (branch expansion) in the next 2.5 years to strengthen retail liability franchise and distribution of retail loan products would augur well in the long-term horizon. But in the medium time frame, it would adversely hit operating profitability as margins also seem to be peaking out. We estimate HDFCB would report RoAA in a narrow range of 196bps – 199bps (from the 9MFY23 level of 204bps) and RoAE in a narrow band of 16.7% - 17.0%. We maintain **HOLD** rating on the stock with a target price of Rs 1,642 (incl. Rs 1,566 at 2.97x 12M FWD P/ABVx and Rs 77 for subsidiaries, excl. holding company's investment book value).

Exhibit 1: Quarterly performance

Quarterly Income Statement (Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Interest Inc. on Advances	2,48,955	2,59,089	2,74,023	3,04,094	3,36,414	35.1	10.6
Interest Inc. on Investments	65,258	65,765	71,936	77,019	80,392	23.2	4.4
Others	10,467	9,633	5,762	4,751	10,271	(1.9)	116.2
Total Interest Inc.	3,24,681	3,34,487	3,51,720	3,85,864	4,27,078	31.5	10.7
Interest Expended	1,40,246	1,45,760	1,56,906	1,75,652	1,97,199	40.6	12.3
NII	1,84,435	1,88,727	1,94,814	2,10,212	2,29,878	24.6	9.4
CXB	50,751	56,303	53,604	58,029	60,526	19.3	4.3
Treasury Income	10,465	(403)	(13,117)	2,531	2,614	(75.0)	3.3
Other Non-Interest Inc.	9,495	8,925	12,593	9,478	10,741	13.1	13.3
Total Non-interest Income	81,836	76,371	63,882	75,956	84,998	3.9	11.9
Total Net Income	2,66,270	2,65,098	2,58,697	2,86,167	3,14,877	18.3	10.0
Total Operating Exp.	98,511	1,01,528	1,05,018	1,12,246	1,24,636	26.5	11.0
Operating Profit	1,67,760	1,63,570	1,53,678	1,73,922	1,90,241	13.4	9.4
Provisions for NPAs	18,206	17,782	15,800	30,004	27,200	49.4	(9.3)
Total Provisions	29,940	33,124	31,877	32,401	28,064	(6.3)	(13.4)
PBT	1,37,820	1,30,447	1,21,801	1,41,520	1,62,176	17.7	14.6
Core PBT	1,27,355	1,30,850	1,34,918	1,38,989	1,59,562	25.3	14.8
Tax Provision	34,398	29,895	29,841	35,463	39,581	15.1	11.6
Net Profit	1,03,422	1,00,552	91,960	1,06,058	1,22,595	18.5	15.6
EPS	18.66	18.13	16.56	19.04	21.98	17.8	15.5
Key Ratios (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (bps)	QoQ (bps)
Trading gains/PBT (%)	7.6	(0.3)	(10.8)	1.8	1.6	(598.1)	(17.7)
NIM	4.1	4.2	4.2	4.3	4.3	20.0	-
CAR	19.5	18.9	17.5	18.0	17.7	(187.0)	(34.0)
Tier I	18.4	17.9	17.1	17.1	17.2	(120.0)	10.0
ROA	2.2	2.0	1.8	2.0	2.2	(1.9)	21.2
CD Ratio	87.2	87.8	86.9	88.4	86.9	(26.4)	(149.7)
Asset Quality (Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
GNPA	1,60,136	1,61,410	1,80,337	1,83,010	1,87,639	17.2	2.5
NNPA	46,768	44,077	48,877	48,827	50,243	7.4	2.9
GNPA (in %)	1.26	1.17	1.28	1.23	1.23	-3 bps	bps
NNPA (in %)	0.37	0.32	0.35	0.33	0.33	-4 bps	bps
PCR (%) (Excl. Technical Write-offs)	70.8	72.7	72.9	73.3	73.2	243 bps	-10 bps
Balance Sheet Details (Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)
Net Advances	1,26,08,628	1,36,88,209	1,39,50,677	1,47,98,732	1,50,68,093	19.5	1.8
Savings Deposits	47,10,290	51,17,390	51,40,630	52,97,450	53,52,060	13.6	1.0
Current Deposits	21,01,950	23,93,110	22,05,840	22,99,510	22,77,450	8.3	(1.0)
CASA Deposits	68,12,240	75,10,500	73,46,470	75,96,960	76,29,510	12.0	0.4
Term Deposits	76,46,941	80,81,674	87,01,130	91,37,120	97,02,530	26.9	6.2
Total Deposits	1,44,59,181	1,55,92,174	1,60,47,600	1,67,34,080	1,73,32,040	19.9	3.6
CASA (%)	47.1	48.2	45.8	45.4	44.0	309 bps	-105 bps

Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly DuPont

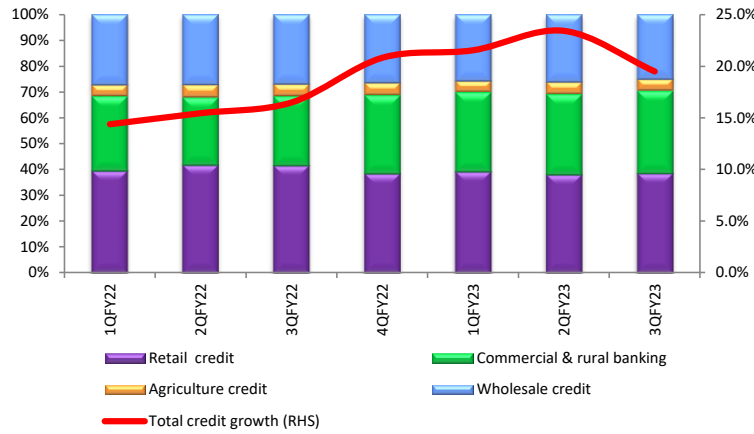
Du-Pont (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Total interest income earned	6.87	6.68	6.73	7.12	7.55
Other income	1.73	1.52	1.22	1.40	1.50
Commission, Exchange & Brokerage	1.07	1.12	1.03	1.07	1.07
Profit on sale of investment	0.22	-0.01	-0.25	0.05	0.05
Miscellaneous Income	0.44	0.41	0.45	0.28	0.39
Total Income	5.63	5.29	4.95	5.28	5.57
Total interest expenses	2.97	2.91	3.00	3.24	3.49
NII	3.90	3.77	3.73	3.88	4.07
Total Oper. Exps.	2.08	2.03	2.01	2.07	2.20
Operating Profit	3.55	3.27	2.94	3.21	3.36
Provisions & Cont and Taxes	0.63	0.66	0.61	0.60	0.50
Profit before Tax	2.91	2.60	2.33	2.61	2.87
Prov for income tax	0.73	0.60	0.57	0.65	0.70
Net Profit (RoAA)	2.19	2.01	1.76	1.96	2.17

Source: Company, Systematix Institutional Research

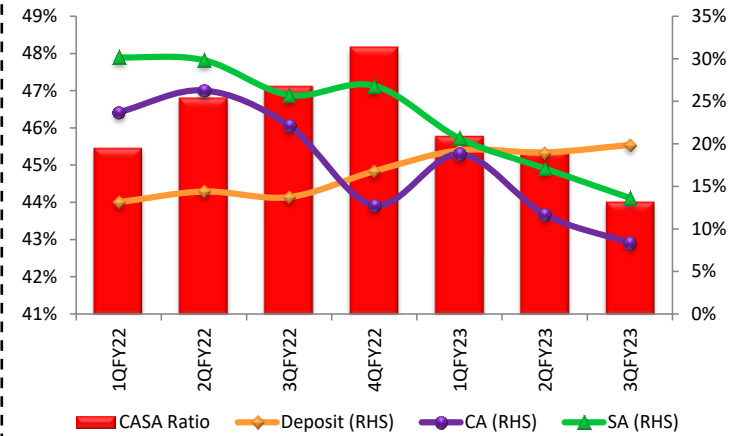
Exhibit 3: Change in estimates

Rs bn	Earlier		Revised			Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
NII	880	1,047	876	1,025	1,201	(0.5)	(2.1)
Operating Profit	748	906	722	870	1,021	(3.5)	(3.9)
PAT	449	560	445	522	613	(0.8)	(6.7)
Adj. BV (Rs)	506	605	503	596	704	(0.5)	(1.5)

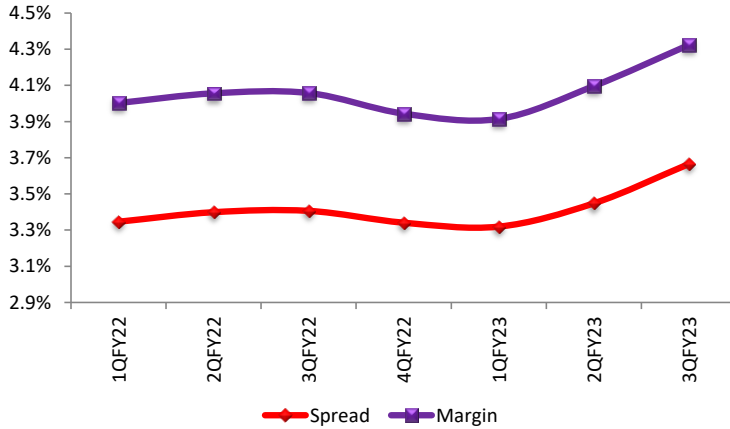
Source: Company, Systematix Institutional Research

Exhibit 4: Credit growth driven by CRB and corporate credit

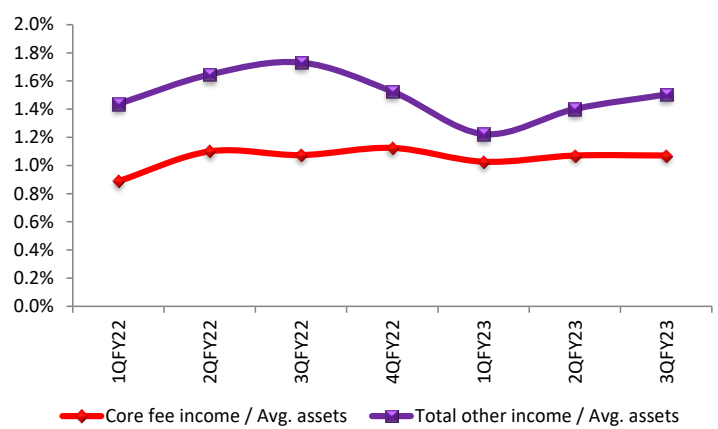
Source: Company, Systematix Institutional Research

Exhibit 5: Deposit growth remains healthy; SA share falls

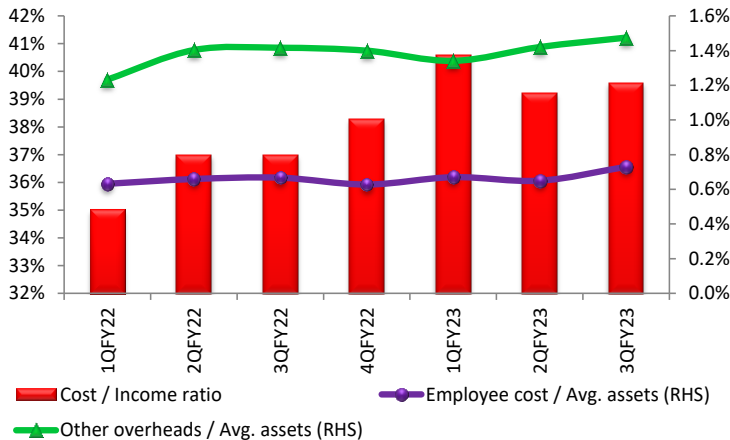
Source: Company, Systematix Institutional Research

Exhibit 6: Margin improves with the faster repricing of loans

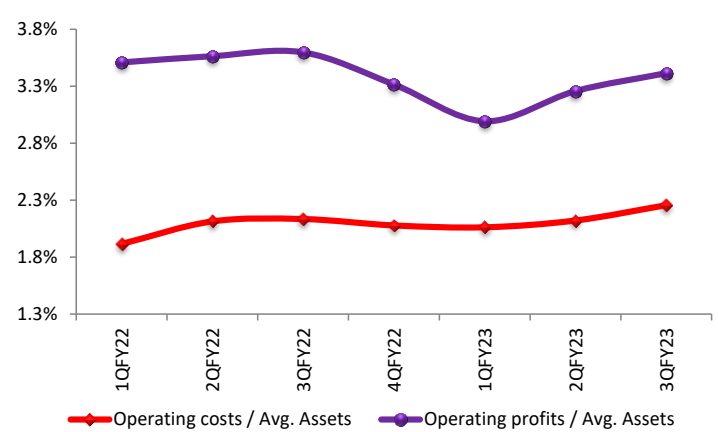
Source: Company, Systematix Institutional Research

Exhibit 7: Core fee income remains stable; retail fee improves

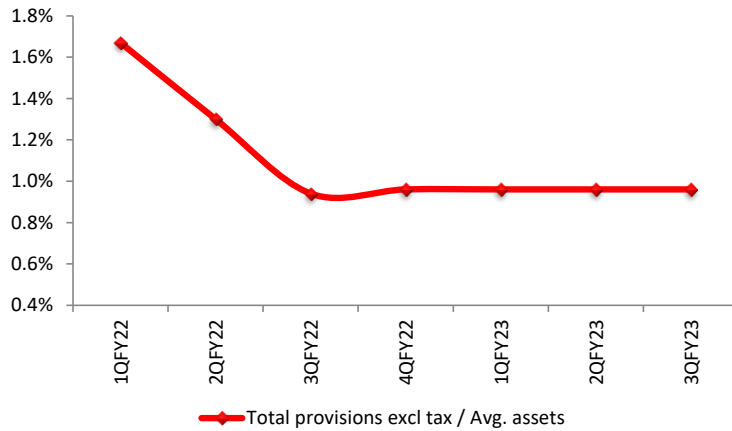
Source: Company, Systematix Institutional Research

Exhibit 8: Cost-Income ratio improves with higher margin

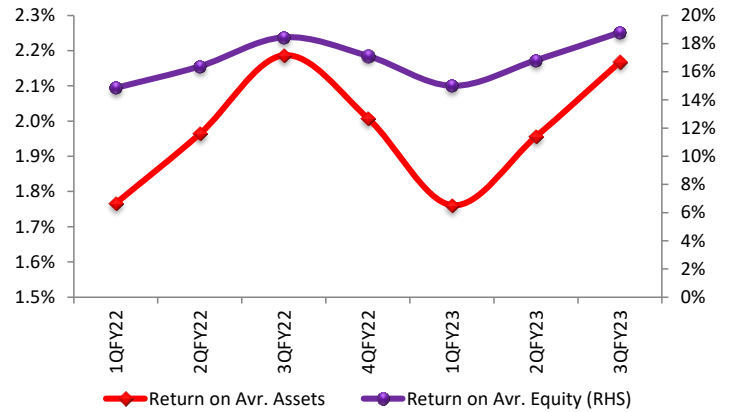
Source: Company, Systematix Institutional Research

Exhibit 9: Margin drives PPOP – average assets ratio

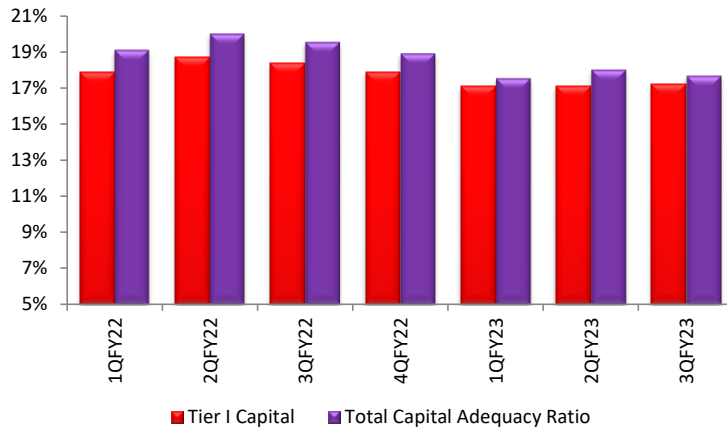
Source: Company, Systematix Institutional Research

Exhibit 10: Total provisions remain stable on a QoQ basis

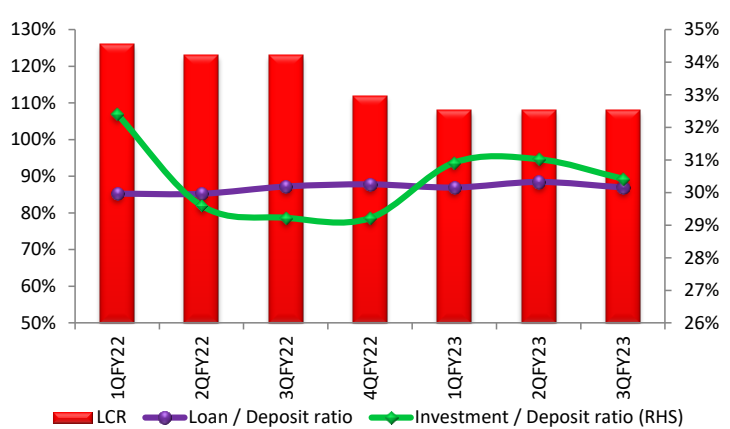
Source: Company, Systematic Institutional Research

Exhibit 11: Return ratios improve

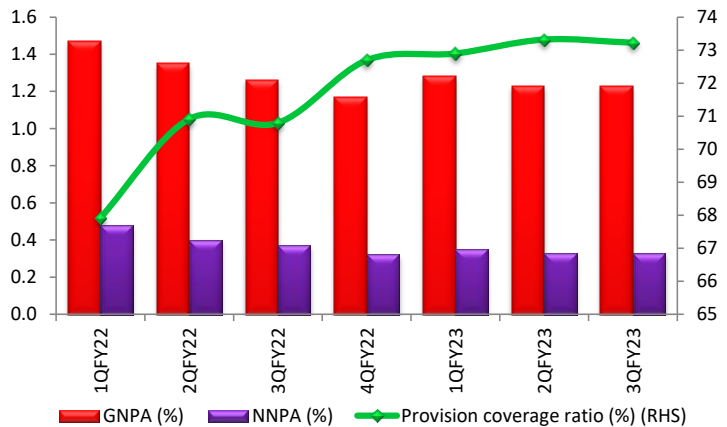
Source: Company, Systematic Institutional Research

Exhibit 12: Capital position remains healthy

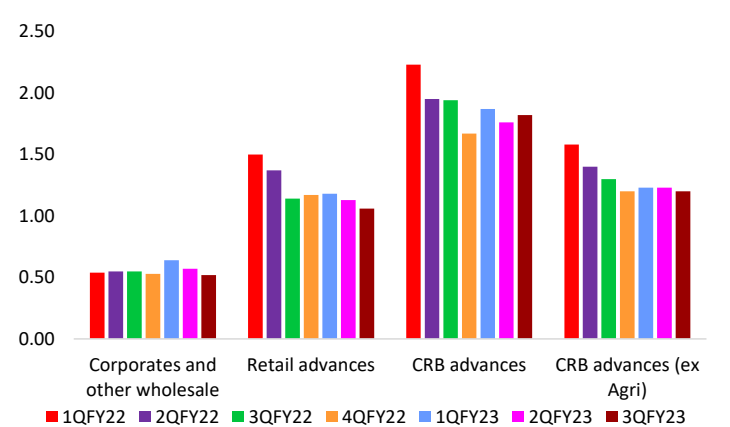
Source: Company, Systematic Institutional Research

Exhibit 13: LCR stagnant at 113%

Source: Company, Systematic Institutional Research

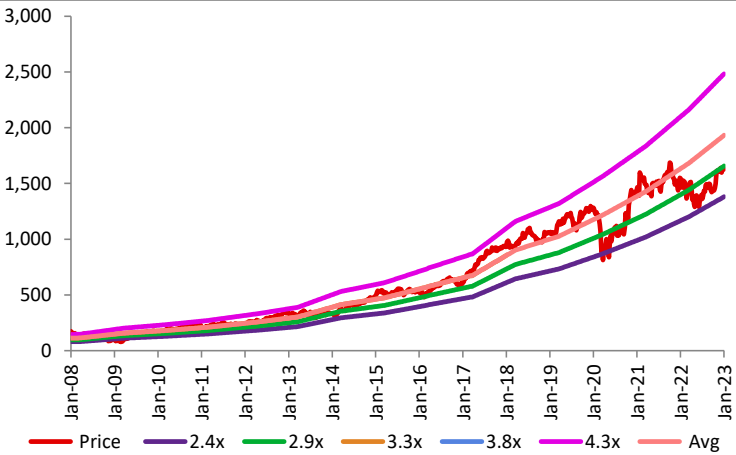
Exhibit 14: Asset quality stable

Source: Company, Systematic Institutional Research

Exhibit 15: GNPA's fall across sectors (barring in CRB segment)

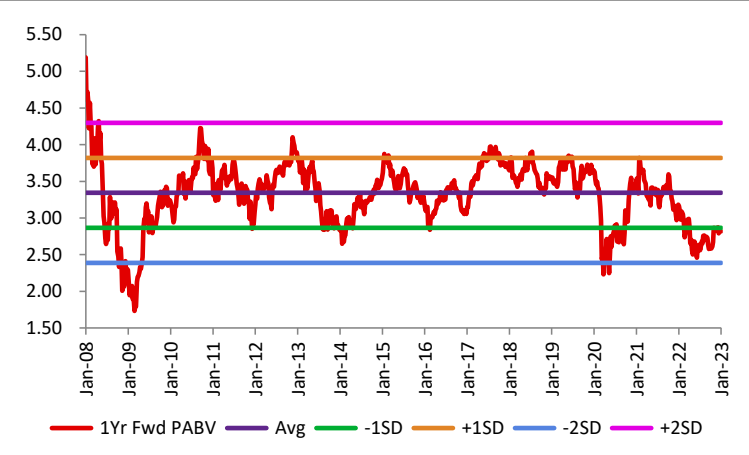
Source: Company, Systematic Institutional Research

Exhibit 16: 1-year forward P/ABV (x) multiple trajectory



Source: Company, Systematix Institutional Research

Exhibit 17: 1-year forward P/ABV (x) trading near -1SD



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	1,209	1,278	1,629	1,947	2,277
Interest Expenses	560	557	753	922	1,075
Net Interest Income	649	720	876	1,025	1,201
Change (%)	15.5	11.0	21.6	17.0	17.2
Commission, Ex. & Br. Inc.	162	195	240	286	334
Add: Other income	90	100	77	104	114
Net Income	901	1,015	1,193	1,414	1,650
Change (%)	13.4	12.7	17.5	18.6	16.7
Operating Expenses	327	374	471	544	628
Operating Profit	574	641	722	870	1,021
Change (%)	26.1	(11.6)	30.5	21.2	17.0
Provisions	157	151	130	174	204
PBT	417	490	592	697	817
Tax	105	121	146	174	204
Tax Rate (%)	25.31	24.59	24.74	25.00	25.00
PAT	311	370	445	522	613
Change (%)	18.5	18.8	20.5	17.3	17.3
Proposed Dividend	36	86	77	91	106

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	7.38	6.70	7.21	7.34	7.39
Interest Expended	3.42	2.92	3.33	3.48	3.49
Net Interest Income	3.96	3.77	3.88	3.86	3.90
Commission, Ex. & Br. Inc.	0.99	1.02	1.06	1.08	1.09
Other Fee Income	0.22	0.48	0.37	0.37	0.35
Net Operating Income	5.17	5.28	5.31	5.31	5.34
Profit on sale of investment	0.33	0.04	(0.03)	0.02	0.02
Net Income	5.50	5.32	5.28	5.33	5.36
Operating Expenses	2.00	1.96	2.09	2.05	2.04
Operating Income	3.50	3.36	3.19	3.28	3.32
Provisions	0.96	0.79	0.57	0.66	0.66
PBT	2.54	2.57	2.62	2.63	2.65
Tax	0.64	0.63	0.65	0.66	0.66
PAT	1.90	1.94	1.97	1.97	1.99
Leverage	8.7	8.6	8.6	8.5	8.4
RoE	16.6	16.7	17.0	16.8	16.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Capital	5.5	5.5	5.6	5.6	5.6
Reserves & Surplus	2,032	2,395	2,841	3,363	3,976
Net Worth	2,037	2,401	2,846	3,369	3,982
Change (%)	19.1	17.9	18.6	18.4	18.2
Deposits	13,351	15,592	18,583	21,696	25,267
Change (%)	16.3	16.8	19.2	16.7	16.5
CASA Ratio (%)	46.1	48.2	44.9	44.9	44.9
Borrowings	1,355	1,848	2,130	2,438	2,679
Other Liabilities	726	844	937	1,031	1,134
Total Liabilities	17,469	20,685	24,496	28,533	33,061
Change (%)	14.1	18.4	18.4	16.5	15.9
Investments	4,437	4,555	5,339	5,686	6,056
Cash & Bank balance	1,195	1,523	1,204	1,415	1,590
Loans	11,328	13,688	16,277	19,405	23,005
Change (%)	14.0	20.8	18.9	19.2	18.6
Fixed Assets	49	61	68	76	87
Other Assets	459	858	1,608	1,952	2,325
Total Assets	17,469	20,685	24,496	28,533	33,061

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)					
Yield on Advances	8.9	7.9	8.6	8.8	8.8
Yield on Earning Assets	7.6	7.0	7.7	7.9	8.0
Cost of Deposits	4.0	3.4	3.8	4.0	4.0
Cost of Funds	4.1	3.5	3.9	4.1	4.1
NIM	4.1	3.9	4.1	4.2	4.2
Profitability Ratios (%)					
Cost/Income	36.3	36.9	39.5	38.5	38.1
PPOP / Avg. assets	3.5	3.4	3.2	3.3	3.3
RoE	16.6	16.7	17.0	16.8	16.7
RoA	1.9	1.9	2.0	2.0	2.0
Asset Quality (%)					
GNPA (Rs bn)	151	161	189	230	276
NNPA (Rs bn)	46	44	51	62	74
GNPA	1.3	1.2	1.2	1.2	1.2
NNPA	0.4	0.3	0.3	0.3	0.3
PCR	69.8	72.7	72.9	73.3	73.3
Capitalisation (%)					
CAR	18.8	18.9	18.4	18.3	18.2
Tier I	17.6	17.9	17.7	17.5	17.5
Tier II	1.2	1.0	0.8	0.8	0.8
Average Leverage on Assets (x)	8.7	8.6	8.6	8.5	8.4
Valuations					
Book Value (Rs)	370	433	510	604	714
Adj. Book Value (Rs)	363	427	503	596	704
Price-BV (x)	4.33	3.70	3.14	2.65	2.24
Price-Adj. BV (x)	4.41	3.75	3.18	2.69	2.27
EPS (Rs)	57	67	80	94	110
EPS Growth (%)	18	18	20	17.29	17.29
Price-Earnings (x)	28.29	24.02	20.05	17.09	14.57
Dividend (Rs)	6.5	15.5	13.9	16.3	19.1
Dividend Yield (%)	0.4	1.0	0.9	1.0	1.2

Source: Company, Systematix Institutional Research

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