

Beat in estimates; deposits accretion remains key...

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 15.0 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q3FY23 Results: Beat NII & PAT estimates; asset quality steady.

- Healthy loan growth at 19.5% YoY to ₹ 15.06 lakh crore; deposits up 19.9%
- NII up 24.6% YoY, NIMs steady QoQ at 4.1%, C/I at 39.6% vs. 37.0% YoY lead by increased opex and staff cost
- Credit cost declined to 0.74%, PAT up 18.5% YoY at ₹ 12259 crore
- GNPA & NNPA steady at 1.23% and 0.33% QoQ, respectively

What should investors do? HDFC Bank's share price has grown more than 25% in the past three years. Building of distribution capabilities and business growth to remain buoyant though merger with HDFC Ltd to remain in focus in the near term.

- We remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: HDFC Bank is expected to deliver higher than industry growth along with RoA of ~2% in FY25E. Rolling to FY25E, we value HDFC Bank at ~2.8x FY25E ABV & ₹ 50 for subsidiaries and revise our target price from ₹ 1750 to ₹ 1920/share.

Key triggers for future price performance:

- Change in asset mix and rate transmission to keep margins steady
- Deposit accretion will remain in focus though the management indicated that it will be supported by branch expansion and relationship building
- Steady asset quality and enough provision buffer provides comfort. Physical/digital capabilities to keep the bank ahead of its competitors

Alternate Stock Idea: Apart from HDFC Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 1000

Key Financial Summary

₹ Crore	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	56,186	64,880	72,010	14%	85,250	99,540	116,816	27%
PPP	48,750	57,362	64,077	17%	73,510	85,823	100,774	25%
PAT	26,257	31,117	36,961	21%	43,633	51,939	61,508	29%
ABV (₹)	305.4	361.3	425.0		484.8	556.8	658.6	
P/E	33.4	28.3	20.4		20.3	17.1	14.4	
P/ABV	5.2	4.4	3.2		3.3	2.9	2.4	
RoA	1.9	1.9	1.9		2.0	2.0	2.0	
RoE	16.4	16.6	16.7		16.9	17.5	17.7	



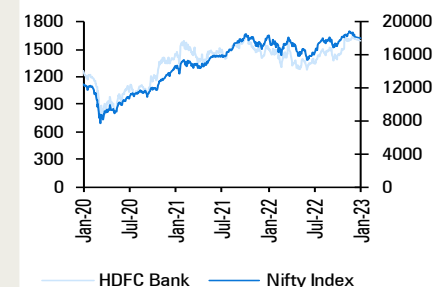
Particulars

Particulars	Amount
Market Capitalisation	₹ 892754 crore
52 week H/L	1721/1271
Network	₹ 260399 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	25.8	25.8	25.8	25.7	25.6
FII	38.2	37.5	35.6	32.3	32.1
DII	22.5	23.0	24.6	27.1	27.5
Others	13.4	13.8	14.1	14.9	14.7

Price Chart



Recent Event & Key risks

- Total provisions at 166% of reported GNPA level
- **Key Risk:** 1) Slower growth in deposits accretion 2) NIMs may witness some pressure in the near term

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Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Beat estimates on NII & PAT front

- HDFC Bank beat our estimates on the NII and PAT front as business growth continued its healthy traction. Asset quality was steady QoQ with GNPA and NNPA ratio at 1.23% and 0.33%, respectively
- Net interest income (NII) was up 24.6% YoY and 9.4% QoQ to ₹ 22987 crore (ahead of our estimates of ₹ 21834 crore), aided by healthy loan growth of 19.5% YoY and steady NIMs at 4.1% on a sequential basis. Other income increased 11.9% QoQ, 3.9% YoY, mainly driven by fee & commission income and forex income, which was up 4.3% QoQ (19% YoY) and 13.3% QoQ (13% YoY) at ₹ 6052 crore and ₹1074.1 crore, respectively
- Opex was up 26.5% YoY and 11% QoQ, whereas C/I ratio was steady at 39.6% (vs. 37% in Q3FY22). Provisions declined both QoQ and YoY at ₹ 2806.4 crore, resulting in credit cost of 0.74% vs. 0.87% in Q2FY23 (0.94% in Q3FY22). Net profit for the quarter beat our estimates at ₹ 12259.5 crore up 18.5% YoY and 15.6% QoQ (vs. our estimate of ₹ 12021.4 crore). Strong PAT resulted in highest RoA at 2.24% (annualised)
- Loan growth for the quarter remained healthy at 19.5% YoY and 1.8% QoQ to ₹ 15.06 lakh crore though a bit of moderation was witnessed compared to previous quarterly growth trend. Retail loans saw 21.4% YoY (5% QoQ) increase while commercial and rural segment saw healthy uptick of 30.2% YoY (5% QoQ). Corporate and wholesale book was up 20.3% YoY (~1% QoQ). Deposit accretion was at 19.9% YoY to ₹ 17.3 lakh crore. CASA deposits reported growth of 12.0% YoY. CASA ratio moderated slightly QoQ at 44% (vs. 45.4% in Q2FY23)
- The bank's subsidiary HDB Financial services saw a slight improvement in asset quality as stage-3 assets were down from 4.88% to 3.73% QoQ. Net profit for HDB grew 65% YoY at ₹ 501 crore. Broking business HDFC Securities saw 6% YoY decline in total income at ₹ 504 crore while net profit was down 21% YoY to ₹ 203 crore

Q3FY23 Earnings Conference Call highlights

- Retail deposits comprise ~85% of total deposits. Within CASA deposits, retail CASA grew 14% YoY and retail current account (CA) (~70% of total CA deposits) grew 14% YoY while wholesale CA deposits de-grew 4% YoY. The management will continue to focus on granular deposit accretion, which will be partly aided by branch addition in the near term
- Expect healthy credit demand from NBFCs, telecom, PSU and infrastructure segments to sustain
- MTM income during the quarter was mainly from AFS investments vs. overall MTM losses in the previous quarter
- Other interest income was partly led by income from RIDF and ~6 bps was from interest on IT refund (~₹ 300 crore)
- Margins may witness some pressure in the near term. However, it will remain in a historical range
- Employee cost was led by addition in branches, cost of Esop (~ ₹ 250 crore). Most of the staff addition will be done on customer facing roles (currently ~84%)
- Out of 1.23% GNPA ~17 bps is standard while slippage ratio during the quarter was 42 bps (₹ 6600 crore). Recoveries and upgrades were at ₹ 3100 crore (~31 bps) and sale of NPAs ~₹ 200 crore. Restructuring was at ~42 bps (₹ 6400 crore)
- PCR on stage 3 book was at 57% while PCR on secured and unsecured book was at 64% and 85%, respectively
- The bank has acquired 1.2 mn cards during the quarter vs. slightly lower than ~1 mn in Q2FY23
- Digital platforms are adding 80000 merchants per month

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	40.1	40.1	40.1
Social	27.9	51.6	56.7
Governance	92.4	79.8	92.4
Overall ESG Score	53.5	57.2	63.1

- The bank added 684 branches during the quarter while gold loan processing is offered from 3938 branches
- LCR was ~113% during the quarter
- Update on merger – The NCLT hearing is on January 27, 2023

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	934	1,000	Buy	2,872	21.5	42.4	66.1	72.9	43	22.0	14.1	12.8	3.0	2.7	2.3	2.1	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	138	155	Buy	292	8.0	9.0	12.0	14.6	17	15.4	11.5	9.5	1.9	1.7	1.5	1.4	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,600	1,920	Buy	8,927	93.7	93.7	93.7	93.7	17	17.1	17.1	17.1	2.4	2.4	2.4	2.4	17.7	17.7	17.7	17.7
IndusInd Bank (INDBA)	1,233	1,450	Buy	956	36.7	59.5	91.3	107.0	34	20.7	13.5	11.5	2.3	2.1	1.8	1.6	7.3	10.1	13.9	14.4
Kotak Bank (KOTMAH)	1,779	2,250	Buy	3,535	35.1	43.0	48.8	57.0	50.6	41.4	36.5	31.2	5.8	5.0	4.4	3.8	12.4	12.6	12.5	12.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
NII	22,987.8	21,834.9	18,443.5	24.6	21,021.2	9.4	Partly driven by interest on I-T refund of ₹ 300 crore
NIM (%)	4.1	4.0	4.1	0.0	4.1	0.0	
Other Income	8,499.8	8,687.1	8,183.6	3.9	7,595.6	11.9	Primary driven by growth in fee & comission income
Net Total Income	31,487.7	30,522.0	26,627.0	18.3	28,616.7	10.0	
Staff cost	4,126.2	3,627.6	3,154.4	30.8	3,523.8	17.1	
Other Operating Expenses	8,337.4	7,701.2	6,696.7	24.5	7,700.7	8.3	C/I ratio steady at 39.6% on sequential basis
PPP	19,024.1	19,193.3	16,776.0	13.4	17,392.2	9.4	
Provision	2,806.4	3,164.7	2,994.0	-6.3	3,240.1	-13.4	Credit cost further moderated to 0.74%
PBT	16,217.6	16,028.6	13,782.0	17.7	14,152.0	14.6	
Tax	3,958.1	4,007.1	3,439.8	15.1	3,546.3	11.6	
PAT	12,259.5	12,021.4	10,342.2	18.5	10,605.8	15.6	Beat estimates led by strong business growth

Key Metrics

GNPA	18,764	18,484	16,014	17.2	18,301	2.5	
NNPA	5,024	4,931	4,677	7.4	4,883	2.9	
Advances	1,506,809	1,507,000	1,260,863	19.5	1,479,873	1.8	Growth driven by retail and commercial segment
Deposits	1,733,204	1,733,500	1,445,918	19.9	1,673,408	3.6	CASA up 12% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Loan book break up

(₹ crore)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Retail loans	5,05,751	5,31,768	5,57,881	5,80,548	6,06,601
Personal	1,33,399	1,40,127	1,47,928	1,54,820	1,64,641
Auto	96,426	1,00,463	1,04,003	1,08,788	1,12,442
Home	78,992	83,056	88,249	93,050	97,593
Payment products	73,305	76,757	80,142	81,966	83,314
LAP	57,736	62,248	65,116	69,313	72,436
Two Wheeler	9,288	9,288	9,195	9,597	9,759
Gold loans	8,198	8,350	8,808	9,434	10,042
Other retail	48,407	51,479	54,440	53,580	56,374
Commercial Bank & Rural (ex Agri)	3,84,195	4,20,191	4,36,485	4,74,462	5,02,356
Agriculture	56,031	64,545	61,579	70,278	70,912
Corporate and Other wholesale	3,26,182	3,64,011	3,63,939	3,96,779	3,92,254
IBPC/BRDS	-	-	(11,709)	(28,815)	(51,621)
Total	12,72,160	13,80,515	14,08,175	14,93,252	15,20,502

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

	FY23E			FY24E			FY25E
(₹ Crore)	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	83,953.5	85,250.0	1.5	99,854.8	99,539.9	-0.3	116,816.2
Pre Provision Profit	72,213.2	73,509.8	1.8	86,138.1	85,823.2	-0.4	100,774.3
NIM calculated (%)	4.0	4.0	2 bps	4.0	4.0	4 bps	4.1
PAT	42,667.4	43,633.4	2.3	52,155.9	51,938.9	-0.4	61,507.8
ABV (₹)	483.0	484.8	0.4	555.4	556.8	0.3	658.6

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	18.6	18.7	18.0	17.3	19.2
Deposit Growth (%)	17.0	17.7	17.8	16.4	17.7
CASA ratio (%)	50.2	49.7	49.1	46.0	49.7
NIM Calculated (%)	4.0	4.0	4.1	4.1	4.0
Cost to income ratio (%)	37.4	37.0	36.5	36.6	36.9
GNPA (₹ crore)	17,764.4	19,691.4	24,240.9	17,937.7	19,699.0
NNPA (₹ crore)	6,344	8,341	13,438	7,118	8,401
Slippage ratio (%)	1.3	1.2	1.3	1.3	1.2
Credit cost (%)	0.9	0.8	0.8	0.9	0.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Interest Earned	127753	156586	184186	215365
Interest Expended	55744	71336	84646	98549
NII	72010	85250	99540	116816
Growth (%)	11.0	18.4	16.8	17.4
Non Interest Income	29510	32210	36716	41971
Total Income	101519	117460	136256	158787
Employee cost	12032	14676	17089	20022
Other operating Exp.	25410	29274	33343	37991
PPP	64077	73510	85823	100774
Provisions	15062	14942	16107	18214
PBT	49015	58568	69717	82561
Taxes	12054	14935	17778	21053
Net Profit	36961	43633	51939	61508
Growth (%)	18.8	18.1	19.0	18.4
EPS	66.7	78.7	93.7	110.9

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares	554.6	554.6	554.6	554.6
EPS (₹)	66.7	78.7	93.7	110.9
BV (₹)	433.0	496.2	571.9	682.8
ABV (₹)	425.0	484.8	556.8	658.6
P/E	20.4	20.3	17.1	14.4
P/BV	3.1	3.2	2.8	2.3
P/ABV	3.2	3.3	2.9	2.4
Yields & Margins (%)				
Net Interest Margins	4.0	4.0	4.0	4.1
Yield on avg earning assets	7.0	7.4	7.5	7.5
Avg. cost on funds	3.5	3.8	3.9	3.9
Avg. cost of deposits	3.4	3.8	3.9	3.9
Yield on average advances	7.9	8.4	8.5	8.4
Quality and Efficiency (%)				
Cost / Total net income	36.9	37.4	37.0	36.5
Credit/Deposit ratio	87.8	89.0	89.8	90.0
GNPA	1.2	1.1	1.0	1.1
NNPA	0.3	0.4	0.4	0.6
ROE	16.7	16.9	17.5	17.7
ROA	1.9	2.0	2.0	2.0

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	555	555	555	555
Reserves and Surplus	239538	274625	316582	378090
Networth	240093	275180	317137	378645
Deposits	1559217	1823527	2146981	2528100
Borrowings	184817	198371	213291	229745
Other Liabilities & Provisions	84407	91276	99083	107995
Total	2068535	2388354	2776492	3244485
Applications of Funds				
Fixed Assets	6084	6760	7261	7844
Investments	455539	503661	576213	659617
Advances	1368821	1623401	1927067	2274740
Other Assets	85765	95270	98439	125567
Cash with RBI & call money	152327	159263	167513	176716
Total	2068535	2388354	2776492	3244485

Source: Company, ICICI Direct Research

Exhibit 9: Key ratio (%)				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets	18.4	15.5	16.3	16.9
Advances	20.8	18.6	18.7	18.0
Deposits	16.8	17.0	17.7	17.8
Total Income	7.7	20.1	17.0	16.5
Net interest income	11.0	18.4	16.8	17.4
Operating expenses	14.4	17.4	14.7	15.0
Operating profit	11.7	14.7	16.8	17.4
Net profit	18.8	18.1	19.0	18.4
Net worth	17.9	14.6	15.2	19.4
EPS	18.1	18.1	19.0	18.4

Source: Company, ICICI Direct Research

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