

HDFC Bank

BSE SENSEX 59,655
S&P CNX 17,624



Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5513
M.Cap.(INRb)/(USD\$)	9339.4 / 113.8
52-Week Range (INR)	1716 / 1272
1, 6, 12 Rel. Per (%)	3/16/20
12M Avg Val (INR M)	12400
Free float (%)	79.1

Financials Snapshot (INR b)

Y/E March	FY23	FY24E	FY25E
NII	868	1,039	1,228
OP	704	842	1,006
NP	441	526	630
NIM (%)	4.1	4.2	4.2
EPS (INR)	79.3	94.4	112.8
EPS Gr. (%)	18.6	19.0	19.6
BV/Sh. (INR)	502	587	689
ABV/Sh. (INR)	489	570	670

Ratios

RoE (%)	17.0	17.3	17.7
RoA (%)	1.9	2.0	2.0

Valuations

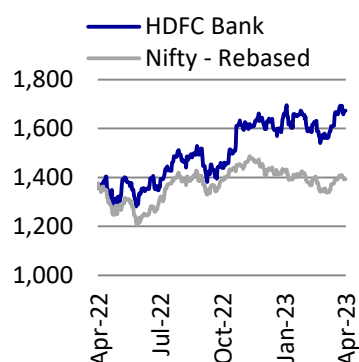
P/E(X)	21.1	17.7	14.8
P/BV (X)	3.3	2.9	2.4
P/ABV (X)	3.4	2.9	2.5

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	20.9	20.9	21.0
DII	23.1	23.0	20.1
FII	44.7	44.8	47.6
Others	11.3	11.4	11.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,674 TP: INR1,950 (+17%) Buy

RBI provides key forbearances toward impending merger

PSL compliance deferred; allowed to increase stake in insurance subs

HDFC Bank has reported that RBI has provided some key forbearances with respect to the ongoing merger process between HDFC Bank and HDFC Ltd. The regulator's decision is still pending on certain other matters. Please find below the key highlights:

PSL requirement to be met in a staggered manner – a key positive

RBI has allowed calculating the ANBC for meeting the PSL requirement, by considering only one-third of the outstanding loans of HDFC Limited as on the Effective Date of the Amalgamation for the first year. The remaining two-thirds of the portfolio of HDFC Limited shall be considered over the next two years. The bank has highlighted in the past that there might be some shortfall in meeting select categories (SMA and Micro), which might entail buying relevant PSLCs or putting money in low-yielding RIDF bonds. We believe this is a significant positive for the bank as it will ease the immediate PSL requirement and would result in cost savings over the initial years post-merger.

CRR, SLR, and LCR requirement to be met from Day 1; seems manageable

HDFC Bank shall continue to comply with the extant requirements of CRR (4.5% of NDTL), SLR (18% of NDTL), and LCR ratio from the Effective Date of merger without any exceptions. Both the bank and HDFC Ltd has been increasing the liquidity buffer on the balance sheet and we believe that the bank will be able to broadly meet these requirements without any challenge.

Allowed to raise stake in insurance subs to >50% - Significant positive

RBI has permitted HDFC Bank or HDFC Limited to increase the shareholding to more than 50% in both HDFC Life and HDFC ERGO, prior to the Effective Date. HDFC Ltd currently holds 48.7% in HDFCLIFE and 49.9% in HDFC ERGO. We believe this removes a key overhang on HDFCLIFE and could enable an additional buying of INR22b for HDFCLIFE. Further, investments of HDFC Limited are allowed to continue as investments of HDFC Bank.

Other announcements

- RBI has permitted HDFC Bank to continue holding HDFC Limited's stake in (a) HDFC Education and Development Services Private Limited, for a period of two years from the Effective Date; and (b) HDFC Credila Financial Services Limited, subject to the shareholding being brought down to 10% within two years from the Effective Date and not onboarding new customers.
- **Interest rate benchmarks** – One-time mapping of all borrowers of HDFC Limited would need to be done by HDFCB for benchmark and spreads. All retail, MSME, and other floating rate loans sanctioned by HDFC Limited would be linked to an appropriate benchmark within six months from Effective Date.

- **Loan Against Shares** – RBI has permitted loan against the shares for promoter contribution / in excess of INR2m to the individuals, to continue for its existing duration / maturity.
- **Income Recognition and Asset Classification** – Subsequent to the Effective Date, asset classification of accounts will be as per the norms applicable to banks.

Valuation and View

The relaxations regarding PSL compliance have a positive impact on the bank, as they lead to cost savings and support profitability in the initial years post-merger. Further, the approval to increase the stake in subsidiaries to more than 50% eliminates a significant concern for HDFC Life and will ensure complete alignment between the interests of the bank and the life subsidiary. We believe that the requirement to meet the SLR, CRR, and LCR right from the effective date of merger would be manageable, given the increased focus on garnering liabilities. We further believe that these forbearances offer reassurances that the merger is progressing as planned and would likely be finalized as per the indicated timelines. Our strong recommendation to BUY HDFCB remains unchanged and we retain our TP of INR1,950 (premised on 3.0x Sep'24E ABV).



Highlights from management commentary

- The bank has a lead time of ~12 months to meet the PSL requirement from the effective date (1/3rd required in the first year).
- On grandfathering of liabilities of HDFC Ltd, the bank will approach the RBI with the list of liabilities as on effective date and the decision will be taken accordingly.
- HDFC Ltd has been on the path of creating additional reserves with respect to the liabilities so that the LCR ratio can be met with ease.
- Availability of Small and Marginal farmers and Micro PSL is scarce and not easy to build. Thus, the bank will accordingly work on its strategy to meet the PSL and offset with buffer in other categories.
- The interest rates post the merger would continue to remain competitive for the customer and would not adversely impact them.
- **Clarification pending:** Loans for acquisition of land, loans to CIC companies, loans for projects under implementation, and immovable property, which is rented, etc.
- LAS book for HDFC Ltd has historically been ~INR50b with individual loans being INR20b.
- HDFC Bank: Fixed-rate book stands at 45%. HDFC Ltd has almost Nil fixed rate book. MCLR book for HDFC bank stands at 6%. Loans of HDFC Ltd. is linked to PLR
- Investments of HDFC Ltd in other banks are within the permitted limits, and thus, have no adverse impact on the company.

Exhibit 1: RBI permits the bank to hold more than 50% in subsidiaries; could result in additional buying of INR22b in HDFC Life

INRb	HDFC Life	HDFC Ergo
Stake Sale held by HDFC Ltd	48.65%	49.98%
Additional Stake require to increase to >50%	2.0%	0.5%
Market Cap / Fair value taken in SOTP for Ergo	1,103	136
Additional Buying for increasing the stake	22.1	0.7

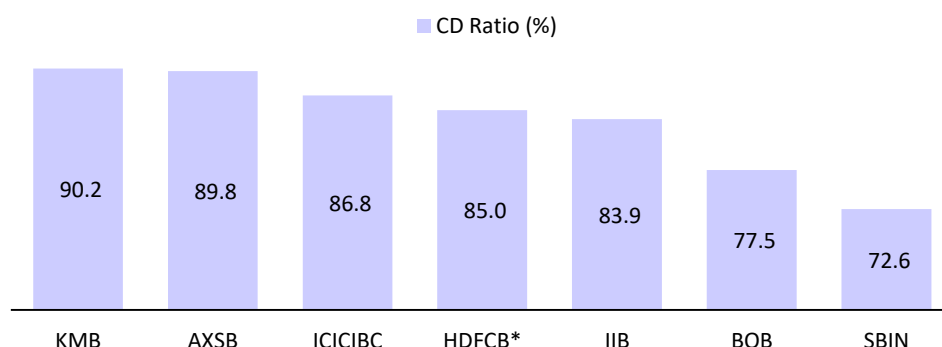
Source: MOFSL, Company

Exhibit 2: Key balance sheet metrics across banks

INRb	AXSB	HDFCB*	ICICIB	IIB	KMB	BOB	SBIN
Deposits	8,482	18,834	11,220	3,253	3,447	11,495	42,136
Borrowings	1,827	2,068	1,306	473	215	1,007	5,501
Total Deposits + Borrowings	10,309	20,902	12,526	3,726	3,662	12,502	47,637
Total Assets	12,235	23,992	15,217	4,445	4,648	13,928	53,241
Deposits as % of Total Assets	69.3%	78.5%	73.7%	73.2%	74.2%	82.5%	79.1%
Investments as % of Total Assets	14.9%	8.6%	8.6%	10.6%	4.6%	7.2%	10.3%
Deposits + Borrowings as % of Total Assets	84.3%	87.1%	82.3%	83.8%	78.8%	89.8%	89.5%
Investments as % of Deposits + Borrowings	29.6%	24.7%	26.9%	20.4%	30.6%	27.9%	32.9%

*As on FY23 for HDFC Bank

Source: MOFSL, Company

Exhibit 3: CD Ratio across banks as on 9MFY23


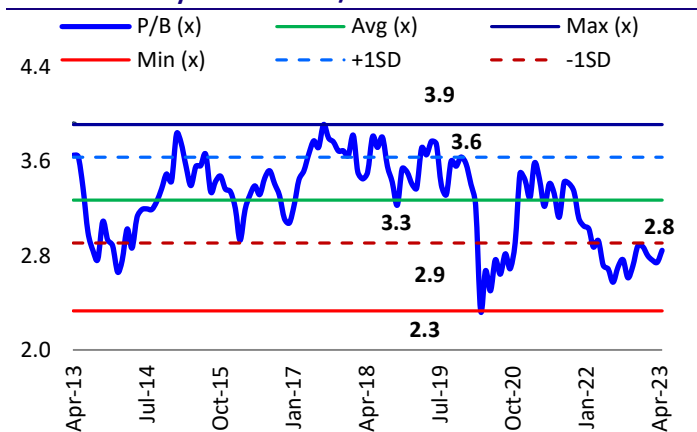
*As on FY23 for HDFC Bank

Source: MOFSL, Company

Exhibit 4: SOTP-based pricing

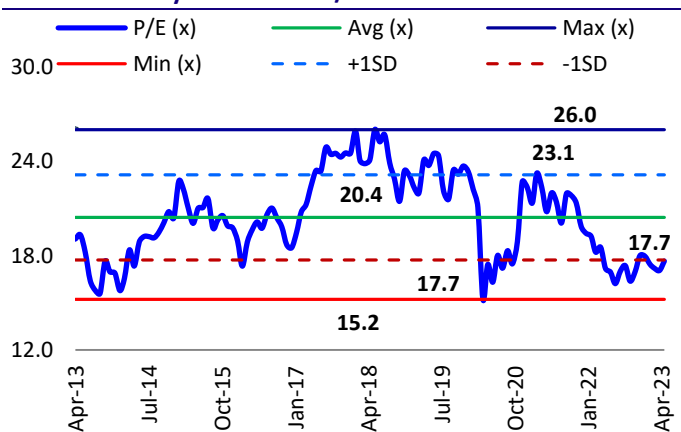
	Stake (%)	Total Value INR b	Total Value USD b	Value Per Share INR	% of Total Value	Rationale
HDFC Bank		10,331.6	126.2	1,852	95.0	❖ 3.0x Sep'24E ABV
HDB Financial Services	94.9	494.6	6.0	89	4.6	❖ 3.5x Sep'24E Net worth
HDFC Securities	95.6	187.9	2.3	34	1.7	❖ 18x Sep'24E PAT
Total Value of Subs		682.5	8.3	123	6.3	
Less: 20% holding Disc		136.5	1.7	25	1.3	
Value of Subs (Post Holding Disc)		546.0	6.7	98	5.0	
Target Price		10,877.6	132.9	1,950		

Exhibit 5: One-year forward P/B



Source: MOFSL, Company

Exhibit 6: One-year forward P/E



Source: MOFSL, Company

Exhibit 7: DuPont Analysis: Return ratios to remain healthy

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	8.32	8.57	8.27	7.38	6.70	7.13	7.59	7.75
Interest Expense	4.17	4.40	4.23	3.42	2.92	3.30	3.70	3.82
Net Interest Income	4.16	4.18	4.05	3.96	3.77	3.83	3.89	3.94
Core Fee Income	1.31	1.34	1.38	1.15	1.22	1.06	1.05	1.06
Trading and others	0.27	0.19	0.30	0.39	0.33	0.31	0.31	0.30
Non-Interest income	1.58	1.53	1.68	1.54	1.55	1.38	1.36	1.36
Total Income	5.74	5.71	5.73	5.50	5.32	5.21	5.25	5.29
Operating Expenses	2.35	2.26	2.21	2.00	1.96	2.10	2.10	2.07
Employee cost	0.71	0.67	0.69	0.63	0.63	0.68	0.65	0.65
Others	1.65	1.59	1.53	1.36	1.33	1.42	1.44	1.42
Operating Profits	3.38	3.44	3.51	3.50	3.36	3.11	3.15	3.23
Core operating Profits	3.11	3.26	3.22	3.11	3.03	2.79	2.84	2.92
Provisions	0.61	0.65	0.88	0.96	0.79	0.53	0.54	0.55
PBT	2.77	2.79	2.64	2.54	2.57	2.58	2.61	2.68
Tax	0.96	0.96	0.75	0.64	0.63	0.63	0.64	0.66
RoA	1.81	1.83	1.89	1.90	1.94	1.95	1.97	2.02
Leverage (x)	9.8	9.0	8.7	8.7	8.6	8.7	8.8	8.8
RoE	17.9	16.5	16.4	16.6	16.7	17.0	17.3	17.7

Financials and valuations

Income Statement							(INRb)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	802.4	989.7	1,148.1	1,208.6	1,277.5	1,615.9	2,028.6	2,419.1
Interest Expense	401.5	507.3	586.3	559.8	557.4	747.4	989.3	1,191.0
Net Interest Income	400.9	482.4	561.9	648.8	720.1	868.4	1,039.3	1,228.1
Growth (%)	21.0	20.3	16.5	15.5	11.0	20.6	19.7	18.2
Non-Interest Income	152.2	176.3	232.6	252.0	295.1	312.1	362.1	423.6
Total Income	553.2	658.7	794.5	900.8	1,015.2	1,180.6	1,401.3	1,651.7
Growth (%)	21.7	19.1	20.6	13.4	12.7	16.3	18.7	17.9
Operating Expenses	226.9	261.2	307.0	327.2	374.4	476.5	559.8	645.6
Pre Provision Profits	326.2	397.5	487.5	573.6	640.8	704.0	841.6	1,006.1
Growth (%)	26.8	21.8	22.6	17.7	11.7	9.9	19.5	19.5
Core PPP	311.0	380.3	465.9	549.2	601.7	659.2	788.5	943.6
Growth (%)	40.8	22.3	22.5	17.9	9.6	9.6	19.6	19.7
Provisions (exc. tax)	59.3	75.5	121.4	157.0	150.6	119.2	143.3	171.0
PBT	267.0	322.0	366.1	416.6	490.2	584.9	698.2	835.1
Tax	92.1	111.2	103.5	105.4	120.5	143.8	171.8	205.4
Tax Rate (%)	34.5	34.5	28.3	25.3	24.6	24.6	24.6	24.6
PAT	174.9	210.8	262.6	311.2	369.6	441.1	526.5	629.7
Growth (%)	20.2	20.5	24.6	18.5	18.8	19.3	19.4	19.6

Balance Sheet								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5.2	5.4	5.5	5.5	5.5	5.6	5.6	5.6
Reserves & Surplus	1,057.8	1,486.6	1,704.4	2,031.7	2,395.4	2,796.4	3,267.1	3,836.8
Net Worth	1,063.0	1,492.1	1,709.9	2,037.2	2,400.9	2,802.0	3,272.7	3,842.3
Deposits	7,887.7	9,231.4	11,475.0	13,350.6	15,592.2	18,833.9	22,129.9	26,002.6
Growth (%)	22.5	17.0	24.3	16.3	16.8	20.8	17.5	17.5
of which CASA Deposits	3,430.9	3,912.0	4,846.3	6,156.8	7,510.5	8,359.9	9,427.3	11,441.2
Growth (%)	11.0	14.0	23.9	27.0	22.0	11.3	12.8	21.4
Borrowings	1,231.0	1,170.9	1,446.3	1,354.9	1,848.2	2,067.7	2,317.4	2,612.8
Other Liabilities & Prov.	457.6	551.1	673.9	726.0	844.1	957.2	1,052.9	1,158.2
Total Liabilities	10,639.3	12,445.4	15,305.1	17,468.7	20,685.4	24,660.8	28,772.9	33,616.0
Current Assets	1,229.2	813.5	866.2	1,194.7	1,523.3	1,937.7	1,809.1	2,117.5
Investments	2,422.0	2,931.2	3,918.3	4,437.3	4,555.4	5,170.0	6,100.6	7,198.7
Growth (%)	12.9	21.0	33.7	13.2	2.7	13.5	18.0	18.0
Loans	6,583.3	8,194.0	9,937.0	11,328.4	13,688.2	16,005.9	18,886.9	22,286.6
Growth (%)	18.7	24.5	21.3	14.0	20.8	16.9	18.0	18.0
Fixed Assets	36.1	40.3	44.3	49.1	60.8	80.2	89.8	100.6
Other Assets	368.8	466.5	539.3	459.3	857.7	1,467.1	1,886.5	1,912.6
Total Assets	10,639.3	12,445.4	15,305.1	17,468.7	20,685.4	24,660.8	28,772.9	33,616.0

Asset Quality								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA	86.1	112.2	126.5	150.9	161.4	180.2	223.3	264.1
NNPA	26.0	32.1	35.4	45.5	44.1	43.7	58.0	65.9
GNPA Ratio	1.3	1.4	1.3	1.3	1.2	1.1	1.2	1.2
NNPA Ratio	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Slippage Ratio	2.1	1.9	1.9	1.5	2.1	1.7	1.6	1.5
Credit Cost	0.8	0.9	1.3	1.5	1.2	0.8	0.8	0.8
PCR (Exc. Tech. write off)	69.8	71.4	72.0	69.8	72.7	75.8	74.0	75.0

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	9.4	9.6	9.0	8.1	7.4	8.0	8.6	8.8
Avg. Yield on loans	10.3	10.5	10.1	8.9	7.9	8.6	9.3	9.3
Avg. Yield on Inv.	7.2	7.6	6.1	5.6	5.8	6.5	6.9	7.1
Avg. Cost-Int. Bear. Liab.	4.9	5.2	5.0	4.1	3.5	3.9	4.4	4.5
Avg. Cost of Deposits	4.6	4.8	4.9	4.0	3.4	3.9	4.2	4.3
Interest Spread	4.5	4.4	4.0	4.0	3.9	4.1	4.2	4.3
Net Interest Margin	4.4	4.4	4.2	4.1	3.9	4.1	4.2	4.2

Capitalisation Ratios (%)

CAR	14.8	17.1	18.3	18.5	18.7	19.3	18.7	18.3
Tier I	13.3	15.8	17.0	17.3	17.7	17.1	16.9	16.7
Tier II	1.6	1.3	1.2	1.2	1.0	2.2	1.9	1.6

Business and Efficiency Ratios (%)

Loans/Deposit	83.5	88.8	86.6	84.9	87.8	85.0	85.3	85.7
CASA Ratio	43.5	42.4	42.2	46.1	48.2	44.4	42.6	44.0
Cost/Assets	2.1	2.1	2.0	1.9	1.8	1.9	1.9	1.9
Cost/Total Income	41.0	39.7	38.6	36.3	36.9	40.4	39.9	39.1
Cost/Core Income	42.2	40.7	39.7	37.3	38.4	42.0	41.5	40.6
Int. Expense/Int. Income	50.0	51.3	51.1	46.3	43.6	46.3	48.8	49.2
Fee Income/Total Income	22.8	23.5	24.1	20.9	22.9	20.4	20.0	20.0
Non Int. Inc./Total Income	27.5	26.8	29.3	28.0	29.1	26.4	25.8	25.6
Emp. Cost/Total Expense	30.0	29.7	31.0	31.7	32.1	32.6	31.0	31.2
Investment/Deposit	30.7	31.8	34.1	33.2	29.2	27.5	27.6	27.7

Valuation

RoE	17.9	16.5	16.4	16.6	16.7	17.0	17.3	17.7
RoA	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.0
RoRWA	2.4	2.4	2.6	2.8	2.8	2.9	3.0	3.0
Book Value (INR)	205	274	312	370	433	502	587	689
Growth (%)	22.0	33.8	13.8	18.5	17.2	16.0	16.8	17.4
Price-BV (x)	8.2	6.1	5.4	4.5	3.9	3.3	2.9	2.4
Adjusted BV (INR)	194	263	300	357	420	489	570	670
Price-ABV (x)	8.6	6.4	5.6	4.7	4.0	3.4	2.9	2.5
EPS (INR)	33.9	39.6	48.0	56.6	66.8	79.3	94.4	112.8
Growth (%)	19.4	16.9	21.2	17.8	18.1	18.6	19.0	19.6
Price-Earnings (x)	49.4	42.2	34.8	29.6	25.0	21.1	17.7	14.8
Dividend Per Share (INR)	7.8	9.0	11.9	6.5	15.5	18.9	10.0	10.8
Dividend Yield (%)	0.5	0.5	0.7	0.4	0.9	1.1	0.6	0.6

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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