

BUY

TP: Rs 1,943 | ▲ 15%

HDFC BANK

| Banking

| 12 April 2023

Q4 likely to see sustained growth momentum

- Expect a healthy March quarter with deposits outpacing loan growth (196bps QoQ decline in CD ratio)
- NIM forecast to reduce 15bps QoQ on a higher cost of funds; CI ratio likely to remain flat at 39.5%
- We pare FY24/FY25 PAT estimates 1%/8% and retain BUY with a revised TP of Rs 1,943 (vs. Rs 2,000)

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Sustained growth momentum: Per business updates issued by HDFCB, loan growth has improved by 6.2% QoQ in Q4FY23 from 1.8% in Q3, albeit with some moderation in YoY growth from the previous quarter (16.9% vs. 19.5%). Credit offtake was mainly led by a focus on commercial and rural banking (9.5% QoQ, 30% YoY) as well as retail (5% QoQ, 21% YoY), while wholesale growth remained muted (4.5% QoQ, 12.5% YoY).

Deposits increased 8.7% QoQ (20.8% YoY) vs. 3.6% QoQ (19.9% YoY) in Q3FY23, outpacing loan growth, resulting in a 196bps QoQ drop in CD ratio. The high sequential deposit growth was driven by an increase in retail deposits (7.5% QoQ, 23.5% YoY), which are likely to remain in focus. CASA ratio stood at 44.4% vs. 44% in Q3FY23.

NII and PAT to stay flat QoQ: Given robust business growth, we expect NII to rise 22% YoY in Q4FY23 while staying flat on a sequential basis due to a higher cost of funds from increased deposit cost. NIM (calc.) is thus projected to decline 15bps QoQ to 4.2% (+22bps YoY). Operating cost is likely to moderate QoQ and CI ratio could be flat at 39.5%. In terms of provisions, we expect credit cost to remain flattish QoQ at 81bps (75bps in Q3). GNPA and NNPA are forecast at 1.3% and 0.4% respectively with 72.5% PCR. We estimate flat sequential PAT at Rs 123.1bn with a 22% jump YoY.

Estimates pared: HDFCB is likely to deliver a solid Q4FY23 performance although we do anticipate some moderation in credit offtake, leading us to tone down our FY24/FY25 loan and deposit growth estimates by 4%/5% and 1%/3% respectively, while reducing PAT forecasts by 1%/8%. The bank's continued focus on retail, commercial and rural banking is likely to aid margins.

Retain BUY: Over FY22-FY25, we expect HDFCB to post a robust credit CAGR of 18.6% and PPOP CAGR of 15% backed by healthy business dynamics. Credit quality is likely to remain stable at current levels with ample provisioning (70%). We bake in a 17% PAT CAGR with ROA/ROE of 1.9%/17.7% in FY25. Considering the healthy growth outlook, we retain BUY. Post estimate revision, we have a new SOTP-based TP of Rs 1,943 (vs. Rs 2,000), set at 3.5x FY25E ABV (vs. 3.3x) based on the Gordon Growth Model and add in Rs 58/sh for subsidiaries.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,685
Market cap	US\$ 114.5bn
Free float	74%
3M ADV	US\$ 211.1mn
52wk high/low	Rs 1,702/Rs 1,272
Promoter/FPI/DII	21%/45%/34%

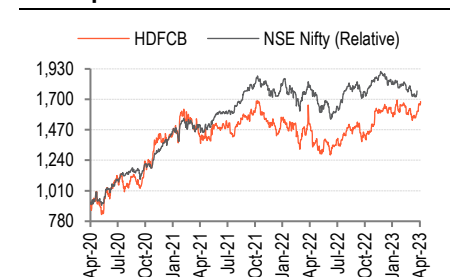
Source: NSE | Price as of 12 Apr 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Net interest income	720,096	865,531	1,011,732
NII growth (%)	11.0	20.2	16.9
Adj. net profit (Rs mn)	369,614	443,731	512,404
EPS (Rs)	66.8	79.8	91.9
Consensus EPS (Rs)	0.0	0.0	0.0
P/E (x)	25.2	21.1	18.3
P/BV (x)	3.9	3.5	3.0
ROA (%)	1.9	2.0	2.0
ROE (%)	16.7	17.3	17.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Income Statement

(Rs mn)	FY22				FY23E				Q4FY23E Chg (%)	
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23E	YoY	QoQ
Interest Income	235,927	241,149	248,955	259,089	274,023	304,094	336,414	351,514	35.7	4.5
Income on investments	64,931	64,506	65,258	65,765	71,936	77,019	80,392	83,743	27.3	4.2
Int. on bal. with RBI & inter-bank funds & Others	3,971	7,878	10,467	9,633	5,762	4,751	10,271	8,516	(11.6)	(17.1)
Interest income	304,830	313,534	324,681	334,487	351,720	385,864	427,078	443,773	32.7	3.9
Interest expense	134,740	136,690	140,246	145,760	156,906	175,652	197,199	213,146	46.2	8.1
Net interest income	170,090	176,844	184,435	188,727	194,814	210,212	229,878	230,627	22.2	0.3
Growth YoY (%)	8.6	12.1	13.0	10.2	14.5	18.9	24.6	22.2	1196bps	(244bps)
Non-interest income	62,885	74,008	81,836	76,371	63,882	75,956	84,998	89,143	16.7	4.9
Growth YoY (%)	54.3	21.5	9.9	0.6	1.6	2.6	3.9	16.7	1616bps	1286bps
Total income	232,975	250,852	266,270	265,098	258,697	286,167	314,877	319,770	20.6	1.6
Growth YoY (%)	18.0	14.7	12.1	7.3	11.0	14.1	18.3	20.6	1336bps	237bps
Staff expenses	27,656	29,671	31,544	31,446	35,002	35,238	41,262	39,887	26.8	(3.3)
Other operating expenses	53,949	63,108	66,967	70,082	70,016	77,007	83,374	86,300	23.1	3.5
Operating expenses	81,604	92,779	98,511	101,528	105,018	112,246	124,636	126,187	24.3	1.2
Pre-Provisioning Profit (PPoP)	151,370	158,073	167,760	163,570	153,678	173,922	190,241	193,583	18.3	1.8
Growth YoY (%)	18.0	14.4	10.5	5.3	1.5	10.0	13.4	18.3	1304bps	495bps
Provisions	48,308	39,247	29,940	33,124	31,877	32,401	28,064	30,513	(7.9)	8.7
Growth YoY (%)	24.1	6.0	(12.3)	(29.4)	(34.0)	(17.4)	(6.3)	(7.9)	2155bps	(162bps)
PBT	103,062	118,826	137,820	130,447	121,801	141,520	162,176	163,071	25.0	0.6
PAT	77,296	88,343	103,422	100,552	91,960	106,058	122,595	123,118	22.4	0.4
Growth YoY (%)	16.1	17.6	18.1	22.8	19.0	20.1	18.5	22.4	(38bps)	390bps
Per Share										
FV (Rs)	1	1	1	1	1	1	1	1	0.0	0.0
EPS (Rs)	14	16	19	18	17	19	22	22	21.8	0.4
Book Value (Rs)	384	395	414	433	451	456	480	487	12.5	1.5

Source: Company, BOBCAPS Research

Fig 2 – Balance sheet & Other Parameters

(Rs mn)	FY22				FY23E				Q4FY23E Chg (%)	
	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23E	YoY	QoQ
Deposits	13,458,293	14,063,433	14,459,181	15,592,174	16,047,600	16,734,080	17,332,040	18,835,000	20.8	8.7
Growth YoY (%)	13.2	14.4	13.8	16.8	19.2	19.0	19.9	20.8	401bps	93bps
Advances	11,476,516	11,988,374	12,608,628	13,688,209	13,950,677	14,798,732	15,068,093	16,005,000	16.9	6.2
Growth YoY (%)	14.4	15.5	16.5	20.8	21.6	23.4	19.5	16.9	(391bps)	(258bps)
Investment	4,361,316	4,162,926	4,225,853	4,555,357	4,961,567	5,191,159	5,272,767	5,532,732	21.5	4.9
Equity	2,124,879	2,187,101	2,296,396	2,400,929	2,502,849	2,541,114	2,675,424	2,715,376	13.1	1.5
Assets	17,539,411	18,448,447	19,382,860	20,685,351	21,097,715	22,278,934	22,953,053	24,148,916	16.7	5.2
Growth YoY (%)	13.5	14.6	17.2	18.4	20.3	20.8	18.4	16.7	(167bps)	(168bps)
Yield (%)										
Yield on Funds	7.17	7.19	7.14	6.99	7.07	7.52	8.03	8.00	102bps	(3bps)
Cost of Funds	3.66	3.61	3.51	3.45	3.56	3.84	4.13	4.23	78bps	10bps
Spread	3.52	3.59	3.63	3.54	3.50	3.68	3.91	3.77	23bps	(13bps)
Net Interest Margin	4.00	4.06	4.06	3.94	3.91	4.10	4.32	4.16	22bps	(16bps)
Ratios (%)										
Other Income / Net Income	27.0	29.5	30.7	28.8	24.7	26.5	27.0	27.9	(93bps)	88bps
Cost to Income ratio	35.0	37.0	37.0	38.3	40.6	39.2	39.6	39.5	116bps	(12bps)
CASA ratio	45.5	46.8	47.1	48.2	45.8	45.4	44.0	44.4	(378bps)	37bps
C/D ratio	85.3	85.2	87.2	87.8	86.9	88.4	86.9	85.0	(281bps)	(196bps)
Investment to Assets	24.9	22.6	21.8	22.0	23.5	23.3	23.0	22.9	89bps	(6bps)
Assets Quality										
GNPA	170,985	163,461	160,136	161,410	180,337	183,010	187,639	204,470	26.7	8.97
NNPA	54,858	47,551	46,768	44,077	48,877	48,827	50,243	56,229	27.6	11.9
Provision	116,127	115,910	113,368	117,333	131,459	134,183	137,396	148,241	26.3	7.9
GNPA (%)	1.47	1.35	1.26	1.17	1.28	1.23	1.23	1.26	9bps	3bps
NNPA (%)	0.48	0.40	0.37	0.32	0.35	0.33	0.33	0.35	3bps	2bps
Provision (%)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	72.5	(19bps)	(72bps)
Others										
Branches	5,653	5,686	5,779	6,342	6,378	6,499	7,183	7,333	991	150
ATMs	16,291	16,642	17,238	18,130	18,620	18,868	19,007	19,432	1,302	425
Employees	123,473	129,341	134,412	141,579	152,511	161,027	166,890	172,326	30,747	5,436

Source: Company, BOBCAPS Research

Valuation methodology

HDFCB's Q4FY23 performance is likely to remain healthy despite some moderation in credit growth from the previous quarter (a systemwide phenomenon). Considering the rising rate environment, we trim our FY23/FY24/FY25 credit growth estimates by 2.9%/3.7%/5.1% and reduce deposit growth assumptions for the bank by 1.4%/2.9% for FY24/FY25, keeping FY23 largely unchanged. We now project a credit CAGR of 18.6% vs. 20% and a deposit CAGR of 19% vs. 20.6% over FY22-FY25.

We expect incremental deposit cost to put some pressure on NII, leading to an 18% CAGR over our forecast period vs. 20.1% estimated earlier. NIM for the same period expected to remain flat as HDFCB's continued focus on the high-yield retail, commercial and rural banking segments is likely to offset margin pressure. The bank's strategy of branch expansion largely in tier-2/3 cities will keep its C/I ratio elevated, albeit with some moderation likely in FY25. On the back of our revised estimates, we now expect a 15% CAGR in PPOP over our forecast period.

We do not anticipate any major asset quality concerns over FY24-FY25 and expect GNPA/NNPA to remain stable at 1.2%/0.35% in both years with a PCR of 72% in FY25. Further, a conservative strategy towards the overall business and specifically towards asset quality via buffer provisioning (floating, contingent, and general provisions form 166% of GNPA) should keep credit cost under control. We model for credit cost of 83bps and 86bps for FY24 and FY25 respectively vs. 92bps and 95bps forecast earlier.

In terms of CAR, HDFCB is well capitalised at 19.4% wherein CET-1 stands at 17.2% (as on Q3FY23). We believe the bank's focus on retail, commercial and rural banking would add some risk-weighted assets to the balance sheet (RWA to total assets estimated at 69% for FY24/FY25 vs. 67.5% currently) and keep CAR at a healthy 17.3%/16.7%. Strong capitalisation would offer scope to garner higher business share. Considering the conservative business approach and rising rate environment, we believe HDFCB is likely to post a PAT CAGR of 17% over FY22-FY25 vs. 19.5% estimated earlier, with ROA/ROE of 1.9%/17.7% in FY25.

Given the healthy growth outlook for the bank, we retain our BUY rating. Post estimate revision, our SOTP-based TP stands revised from Rs 2,000 to Rs 1,943, set at 3.5x FY25E P/ABV (3.3x earlier) based on the Gordon Growth Model. We also add in Rs 58/sh as the value of the bank's subsidiaries.

Fig 3 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Loan	1,60,05,000	1,91,57,985	2,28,36,318	1,64,80,604	1,98,92,089	2,40,69,428	(2.9)	(3.7)	(5.1)
Deposits	1,88,35,000	2,24,13,650	2,65,60,175	1,87,88,570	2,27,34,170	2,73,58,300	0.2	(1.4)	(2.9)
Assets	2,41,48,916	2,83,12,615	3,34,86,065	2,46,36,214	2,93,91,174	3,52,72,231	(2.0)	(3.7)	(5.1)
NII	8,65,531	10,11,732	11,79,476	8,62,543	10,22,150	12,48,787	0.3	(1.0)	(5.6)
PPOP	7,11,424	8,25,132	9,58,078	7,09,358	8,51,251	10,53,046	0.3	(3.1)	(9.0)
Provisions	1,22,856	1,45,516	1,79,682	1,22,856	1,66,765	2,07,849	0.0	(12.7)	(13.6)
PAT	4,43,731	5,08,353	5,82,240	4,41,527	5,11,995	6,32,208	0.5	(0.7)	(7.9)

Source: BOBCAPS Research

Fig 4 – Key operational assumptions

Parameter (%)	FY21	FY22	FY23E	FY24E
Advances	20.8	16.9	19.7	19.2
Net Interest Income	11.0	20.2	16.9	16.6
PPOP	11.7	11.0	16.7	16.8
PAT	18.8	20.1	15.5	15.4
NIM	3.9	4.1	4.1	4.0
GNPA	1.2	1.3	1.2	1.2
CAR	18.9	18.4	17.3	16.7

Source: Company, BOBCAPS Research

Fig 5 – Key valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.3
Equity risk premium (%)	5.0
Beta	1.2
Cost of equity (%)	12.3
Blended ROE (%)	18.6
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	7.4
Long term dividend payout ratio (%)	60.0
Justified P/BV Multiple (x)	3.5

Source: Company, BOBCAPS Research

Fig 6 – Valuation summary

Business	Multiple	Holding %	Value (Rs/sh)
HDFC Bank	3.5x FY25E ABV	100	1,885
HDB Financial	1.5x FY25E ABV	94.9	32
HDFC Securities	15x FY25E EPS	95.6	26
Total	-	-	1,943

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- elongation of the merger process of HDFC Ltd coupled with no relaxation on statutory requirements, and
- a weak demand environment, leading to overall slowdown in credit offtake.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Bank	HDFCB IN	114.5	1,685	1,943	BUY
Indusind Bank	IIB IN	10.1	1,075	1,547	BUY

Source: BOBCAPS Research, NSE | Price as of 12 Apr 2023

Glossary

Glossary of Abbreviations			
NIM	Net Interest Margin	CI	Cost-Income Ratio
NII	Net Interest Income	NNPA	Net Non-Performing Assets
CASA	Current Account and Savings Account	GNPA	Gross Non-Performing Assets
CAR	Capital Adequacy Ratio	PCR	Provision Coverage Ratio
CET1	Common Equity Tier 1	PPOP	Pre-provision Operating Profit
CD	Credit-Deposit Ratio	RWA	Risk-weighted Assets

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest income	648,796	720,096	865,531	1,011,732	1,179,476
Nil growth (%)	15.5	11.0	20.2	16.9	16.6
Non-interest income	252,049	295,099	313,979	367,231	420,231
Total income	900,845	1,015,195	1,179,511	1,378,963	1,599,707
Operating expenses	327,226	374,422	468,086	548,416	629,617
PPOP	573,618	640,773	711,424	830,548	970,090
PPOP growth (%)	17.7	11.7	11.0	16.7	16.8
Provisions	157,029	150,618	122,856	145,516	179,682
PBT	416,590	490,155	588,568	685,032	790,408
Tax	105,425	120,541	144,837	172,628	199,183
Reported net profit	311,165	369,614	443,731	512,404	591,225
Adjustments	0	0	0	0	0
Adjusted net profit	311,165	369,614	443,731	512,404	591,225

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Equity capital	5,513	5,546	5,577	5,577	5,577
Reserves & surplus	2,031,695	2,395,384	2,709,800	3,104,351	3,559,594
Net worth	2,037,208	2,400,929	2,715,376	3,109,927	3,565,171
Deposits	13,350,602	15,592,174	18,835,000	22,413,650	26,560,175
Borrowings	1,354,873	1,848,172	2,036,686	2,281,088	2,623,251
Other liab. & provisions	726,022	844,075	561,854	507,950	737,468
Total liab. & equities	17,468,705	20,685,350	24,148,916	28,312,615	33,486,065
Cash & bank balance	1,194,704	1,523,269	1,282,122	1,579,823	1,922,223
Investments	4,437,283	4,555,357	5,532,732	6,379,299	7,489,065
Advances	11,328,366	13,688,209	16,005,000	19,157,985	22,836,318
Fixed & Other assets	508,352	918,515	1,329,062	1,195,507	1,238,460
Total assets	17,468,705	20,685,351	24,148,916	28,312,615	33,486,065
Deposit growth (%)	16.3	16.8	20.8	19.0	18.5
Advances growth (%)	14.0	20.8	16.9	19.7	19.2

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS	56.6	66.8	79.8	91.9	106.0
Dividend per share	0.0	6.5	15.9	21.1	24.4
Book value per share	369.5	432.9	486.9	557.7	639.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
P/E	29.8	25.2	21.1	18.3	15.9
P/BV	4.6	3.9	3.5	3.0	2.6
Dividend yield (%)	0.0	0.4	0.9	1.3	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Net interest income	4.0	3.8	3.9	3.9	3.8
Non-interest income	1.5	1.5	1.4	1.4	1.4
Operating expenses	2.0	2.0	2.1	2.1	2.0
Pre-provisioning profit	3.5	3.4	3.2	3.2	3.1
Provisions	1.0	0.8	0.5	0.6	0.6
PBT	2.5	2.6	2.6	2.6	2.6
Tax	0.6	0.6	0.6	0.7	0.6
ROA	1.9	1.9	2.0	2.0	1.9
Leverage (x)	8.7	8.6	8.8	9.0	9.3
ROE	16.6	16.7	17.3	17.6	17.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Net interest income	15.5	11.0	20.2	16.9	16.6
Pre-provisioning profit	17.7	11.7	11.0	16.7	16.8
EPS	17.8	18.1	19.4	15.2	15.4
Profitability & Return ratios (%)					
Net interest margin	4.1	3.9	4.1	4.1	4.0
Fees / Avg. assets	1.0	1.0	1.1	1.0	1.0
Cost-Income	36.3	36.9	39.7	39.8	39.4
ROE	16.6	16.7	17.3	17.6	17.7
ROA	1.9	1.9	2.0	2.0	1.9
Asset quality (%)					
GNPA	1.3	1.2	1.3	1.2	1.2
NNPA	0.4	0.3	0.4	0.4	0.4
Slippage ratio	1.6	2.4	1.9	2.2	2.3
Credit cost	1.1	0.8	0.6	0.6	0.7
Provision coverage	69.8	72.7	72.5	72.0	72.0
Ratios (%)					
Credit-Deposit	84.9	87.8	85.0	85.5	86.0
Investment-Deposit	33.2	29.2	29.4	28.5	28.2
CAR	18.8	18.9	18.4	17.3	16.7
Tier-1	17.6	17.9	16.6	15.8	15.3

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

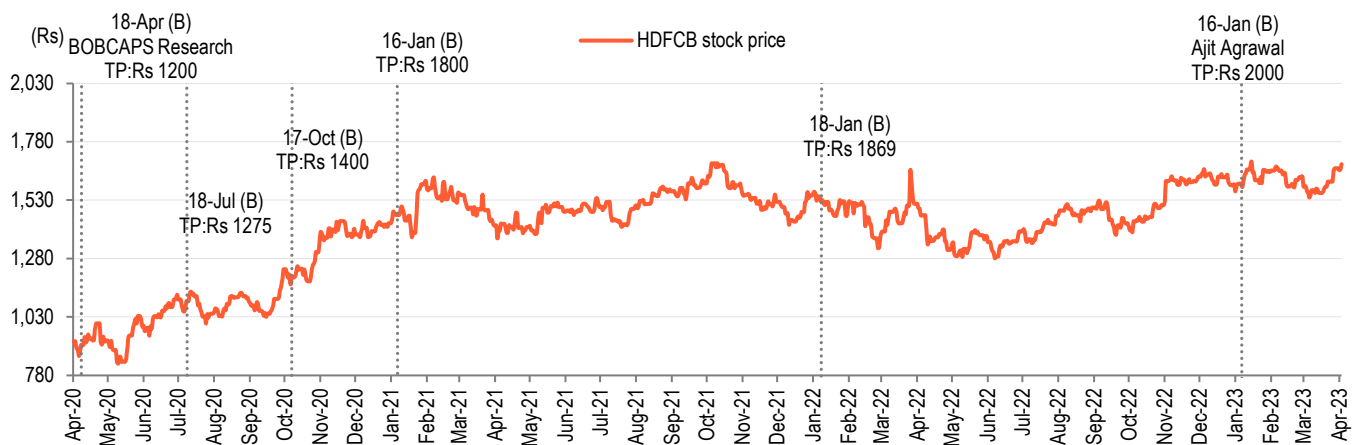
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): HDFC BANK (HDFCB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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