

**BUY**

TP: Rs 1,956 | ▲ 16%

**HDFC BANK**

| Banking

| 24 April 2023

## RBI clears pitch for merger with HDFC

- Central bank permits leeway on PSL norms post-merger which will aid HDFCB's margins and asset quality in the immediate term
- Clarity also provided on holding pattern of listed subsidiaries such as HDFC Life and HDFC Ergo, removing a key overhang on the stock
- Maintain BUY with an unchanged TP of 1,956 (3.1x FY25E ABV)

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**PSL norms eased:** RBI has relaxed priority sector lending (PSL) norms for the HDFCB and HDFC Ltd (HDFC) merger, permitting adjusted net bank credit (ANBC) for the latter to be calculated as a third of the housing financier's outstanding loans (as on effective merger date) for the first year and the remaining two-thirds equally over the next two years. We believe gradual inclusion of HDFC's loans for PSL calculation is a positive as the bank will have extra time to fulfill PSL norms requiring 40% of ANBC to be deployed for agriculture (18%), micro enterprises (7.5%) & weaker sections (12%).

**No relaxation of reserve requirements:** RBI indicated that HDFCB shall continue to comply with extant requirements of CRR, SLR and LCR without exceptions. We see only a limited impact as the bank has indicated its preparedness for the same.

**Clarity on subsidiary holding pattern:** RBI has permitted investments of HDFC's subsidiaries and associates to be considered as investments of the bank and allowed HDFCB to raise its stake to >50% each in HDFC Life and HDFC Ergo General Insurance ahead of the merger date (HDFCB holds 48.6% and 50.5% resp. as of Mar'23). This removes the overhang on the listed arm and provides clarity on holding pattern.

RBI has also allowed HDFCB to continue holding HDFC's stake (100%) in HDFC Education & Development Services for two years from the merger date. In HDFC Credila Financial Services (NBFC), HDFCB needs to bring down its holding to 10% (from 100%) within two years without onboarding new customers

**Customer mapping:** HDFCB is required to undertake a one-time mapping of HDFC's borrowers for benchmark and spreads. All retail, MSME and floating rate loans sanctioned by the housing arm must be linked to appropriate benchmarks within six months of merger. Asset classification in HDFCB's books will be as per norms applicable to banks.

**View:** RBI's clarification helps dispel the uncertainty surrounding merger contours and offers some leeway on regulatory norms which is positive for the bank. We reiterate BUY on HDFCB with an unchanged TP of Rs 1,956, set at 3.1x FY25E ABV based on the Gordon Growth Model with Rs 56/sh for subsidiaries.

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,688
Market cap	US\$ 115.0bn
Free float	74%
3M ADV	US\$ 231.2mn
52wk high/low	Rs 1,720/Rs 1,272
Promoter/FPI/DII	26%/32%/28%

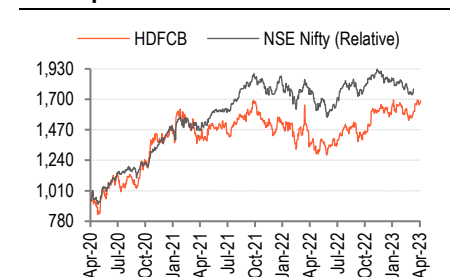
Source: NSE | Price as of 24 Apr 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	8,68,422	10,18,026	11,85,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	4,41,087	4,99,503	5,75,553
EPS (Rs)	79.3	89.5	103.2
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	21.3	18.9	16.4
P/BV (x)	3.4	3.0	2.6
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.7	16.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Net interest income</b>	<b>6,48,796</b>	<b>7,20,096</b>	<b>8,68,422</b>	<b>10,18,026</b>	<b>11,85,894</b>
NilI growth (%)	15.5	11.0	20.6	17.2	16.5
Non-interest income	2,52,049	2,95,099	3,12,148	3,84,129	4,48,193
Total income	9,00,845	10,15,195	11,80,571	14,02,155	16,34,087
Operating expenses	3,27,226	3,74,422	4,76,521	5,78,081	6,63,931
PPOP	5,73,618	6,40,773	7,04,050	8,24,074	9,70,156
PPOP growth (%)	17.7	11.7	9.9	17.0	17.7
Provisions	1,57,029	1,50,618	1,19,197	1,56,289	2,00,699
PBT	4,16,590	4,90,155	5,84,853	6,67,785	7,69,456
Tax	1,05,425	1,20,541	1,43,766	1,68,282	1,93,903
<b>Reported net profit</b>	<b>3,11,165</b>	<b>3,69,614</b>	<b>4,41,087</b>	<b>4,99,503</b>	<b>5,75,553</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,11,165</b>	<b>3,69,614</b>	<b>4,41,087</b>	<b>4,99,503</b>	<b>5,75,553</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	5,513	5,546	5,580	5,580	5,580
Reserves & surplus	20,31,695	23,95,384	27,96,411	31,81,028	36,24,204
Net worth	20,37,208	24,00,929	28,01,990	31,86,608	36,29,784
Deposits	1,33,50,602	1,55,92,174	1,88,33,947	2,24,12,396	2,65,58,690
Borrowings	13,54,873	18,48,172	20,67,656	23,15,774	26,63,140
Other liab. & provisions	7,26,022	8,44,075	9,57,223	4,07,704	6,45,615
<b>Total liab. &amp; equities</b>	<b>1,74,68,705</b>	<b>2,06,85,350</b>	<b>2,46,60,815</b>	<b>2,83,22,483</b>	<b>3,34,97,229</b>
Cash & bank balance	11,94,704	15,23,269	19,37,651	15,79,735	19,22,115
Investments	44,37,283	45,55,357	51,70,014	63,88,168	74,99,050
Advances	1,13,28,366	1,36,88,209	1,60,05,859	1,91,59,013	2,28,37,544
Fixed & Other assets	5,08,352	9,18,515	15,47,291	11,95,566	12,38,520
<b>Total assets</b>	<b>1,74,68,705</b>	<b>2,06,85,351</b>	<b>2,46,60,815</b>	<b>2,83,22,483</b>	<b>3,34,97,229</b>
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	FY23P	FY24E	FY25E
EPS	56.6	66.8	79.3	89.5	103.2
Dividend per share	0.0	6.5	19.0	20.6	23.7
Book value per share	369.5	432.9	502.2	571.1	650.5

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	29.8	25.3	21.3	18.9	16.4
P/BV	4.6	3.9	3.4	3.0	2.6
Dividend yield (%)	0.0	0.4	1.1	1.2	1.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	4.0	3.8	3.8	3.8	3.8
Non-interest income	1.5	1.5	1.4	1.5	1.5
Operating expenses	2.0	2.0	2.1	2.2	2.1
Pre-provisioning profit	3.5	3.4	3.1	3.1	3.1
Provisions	1.0	0.8	0.5	0.6	0.6
PBT	2.5	2.6	2.6	2.5	2.5
Tax	0.6	0.6	0.6	0.6	0.6
ROA	1.9	1.9	1.9	1.9	1.9
Leverage (x)	8.7	8.6	8.7	8.8	9.1
ROE	16.6	16.7	17.0	16.7	16.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Net interest income	15.5	11.0	20.6	17.2	16.5
Pre-provisioning profit	17.7	11.7	9.9	17.0	17.7
EPS	17.8	18.1	18.6	12.9	15.2
<b>Profitability &amp; Return ratios (%)</b>					
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	40.4	41.2	40.6
ROE	16.6	16.7	17.0	16.7	16.9
ROA	1.9	1.9	1.9	1.9	1.9
<b>Asset quality (%)</b>					
GNPA	1.3	1.2	1.1	1.2	1.2
NNPA	0.4	0.3	0.3	0.3	0.3
Slippage ratio	1.6	2.4	1.5	2.2	2.3
Credit cost	1.5	1.2	0.8	0.9	1.0
Provision coverage	69.8	72.7	75.8	72.0	72.0
<b>Ratios (%)</b>					
Credit-Deposit	84.9	87.8	85.0	85.5	86.0
Investment-Deposit	33.2	29.2	27.5	28.5	28.2
CAR	18.8	18.9	19.3	19.0	18.2
Tier-1	17.6	17.9	17.1	17.0	16.3

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

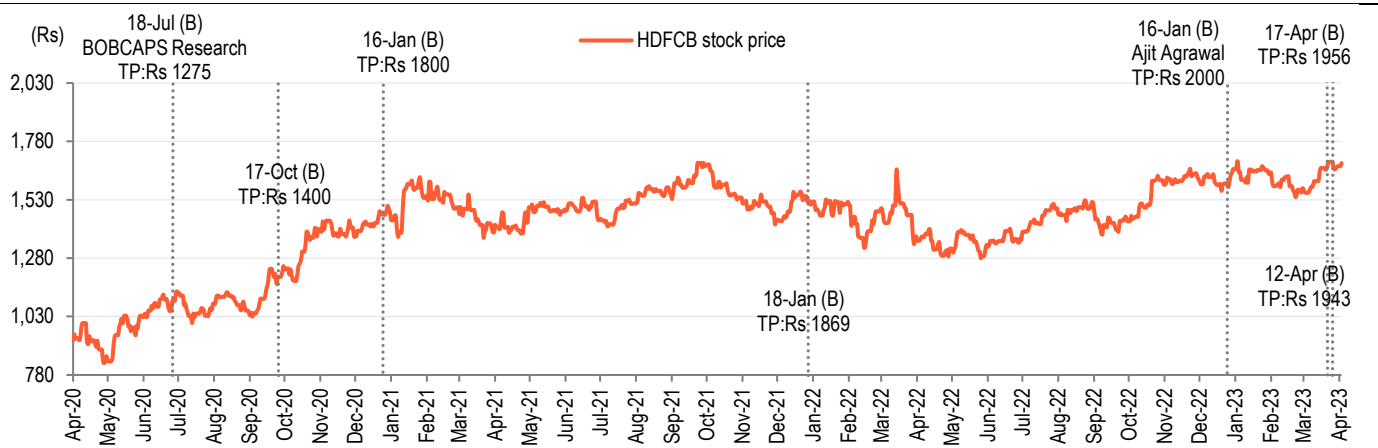
**HOLD** – Expected return from -6% to +15%

**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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