

BUY

TP: Rs 1,956 | ▲ 16%

HDFC BANK

| Banking

| 17 April 2023

Q4 healthy despite higher opex

- Deposits outpaced loan growth YoY while a higher cost of funds led to 14bps contraction in NIM to 4.2% in Q4; FY24 NIM guided at 4.1%
- Lower slippages aided improvement in GNPA/NNPA; credit cost (67bps in Q4) guided to normalise to ~1% as retail loan share rises
- Maintain BUY with a revised TP of Rs 1,956 (vs. Rs 1,943)

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Deposits outpace loan growth: HDFCB's deposits grew 21% YoY in Q4FY23, outpacing loan growth of 17%. CASA improved 40bps QoQ to 44.4%, and higher deposit mobilisation led to a 196bps decline in CD ratio. The bank retained its focus on the high-yield retail and CRB business, wherein home and personal loans led the way in retail, and vehicle (+11% QoQ/37% YoY) and business banking drove the CRB segment.

NIM down 14bps QoQ; guided to settle at 4.1%: As expected, HDFCB's focus on business granularity and deposit repricing pushed up its cost of funds. NIM thus contracted 14bps QoQ to 4.2% vs. 4.3% in Q3. Management expects margins to sustain at 4.1%, give or take 5bps, and indicated that any structural change in portfolio mix in FY24-FY25 in favour of the retail segment (now 46% of advances) can improve margins. NII grew 24% YoY and 2% QoQ. Other income was muted (+3% QoQ) due to a treasury loss of Rs 377mn vs. a gain of Rs 2.6bn in Q3FY23.

Higher opex weighs on PPOP: HDFCB's retail thrust led to higher operating cost, raising the CI ratio to 42%. However, management believes CI will settle ~40% as opex normalises over the next 6-8 quarters (costs are front loaded) and volume expansion kicks in. Core PPOP dipped 2% QoQ (+14% YoY) in Q4.

Asset quality improves but remains a monitorable: Lower slippages led to a 12bps/6bps QoQ reduction in GNPA/NNPA. The bank's PCR also improved to 76% vs. 73% in Q3FY23. Cumulative provisioning at Rs 318bn was at 176% of GNPA vs. 166% in Q3, providing an additional buffer against asset stress. Credit cost stood at 67bps in Q4 vs. 74bps/96bps in Q3FY23/Q4FY22, which management expects will normalise to pre-Covid levels (~1%) given the increasing share of retail loans. The restructured book was at 37bps of loans (vs. 50bps in Q3).

Maintain BUY: We expect HDFCB to post a credit CAGR of 18.6% over FY22-FY25 with a PAT CAGR of 16.3% baking in elevated costs. Asset quality is likely to be stable over our forecast period (GNPA/NNPA 1.2%/0.3%) with a slight addition in credit cost. We maintain BUY with a revised TP of Rs 1,956 (vs. Rs 1,943), set at 3.1x FY25E ABV (vs. 3.5x) based on the Gordon Growth Model with Rs 56/sh for subsidiaries.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,692
Market cap	US\$ 115.6bn
Free float	74%
3M ADV	US\$ 216.8mn
52wk high/low	Rs 1,702/Rs 1,272
Promoter/FPI/DII	26%/32%/28%

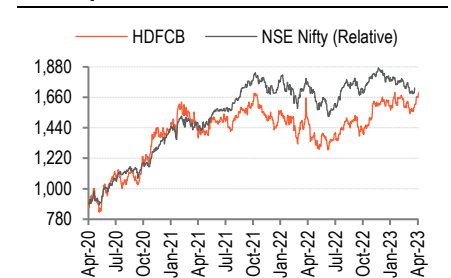
Source: NSE | Price as of 13 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Net interest income	868,422	1,018,026	1,185,894
NII growth (%)	20.6	17.2	16.5
Adj. net profit (Rs mn)	441,087	499,503	575,553
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



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)	Q4FY23E	Variance (%)
Income Statement												
Interest Income	235,927	241,149	248,955	259,089	274,023	304,094	336,414	356,428	37.6	5.9	351,514	1.4
Income on investments	64,931	64,506	65,258	65,765	71,936	77,019	80,392	83,764	27.4	4.2	83,743	0.0
Int. on bal. with RBI & inter-bank funds & Others	3,971	7,878	10,467	9,633	5,762	4,751	10,271	11,001	14.2	7.1	8,516	29.2
Interest income	304,830	313,534	324,681	334,487	351,720	385,864	427,078	451,194	34.9	5.6	443,773	1.7
Interest expense	134,740	136,690	140,246	145,760	156,906	175,652	197,199	217,675	49.3	10.4	213,146	2.1
Net interest income	170,090	176,844	184,435	188,727	194,814	210,212	229,878	233,518	23.7	1.6	230,627	1.3
Growth YoY (%)	8.6	12.1	13.0	10.2	14.5	18.9	24.6	23.7	1350bps	(91bps)	22.2	153bps
Non-interest income	62,885	74,008	81,836	76,371	63,882	75,956	84,998	87,312	14.3	2.7	89,143	(2.1)
Growth YoY (%)	54.3	21.5	9.9	0.6	1.6	2.6	3.9	14.3	1376bps	1046bps	16.7	(240bps)
Total income	232,975	250,852	266,270	265,098	258,697	286,167	314,877	320,830	21.0	1.9	319,770	0.3
Growth YoY (%)	18.0	14.7	12.1	7.3	11.0	14.1	18.3	21.0	1376bps	277bps	20.6	40bps
Staff expenses	27,656	29,671	31,544	31,446	35,002	35,238	41,262	43,621	38.7	5.7	39,887	9.4
Other operating expenses	53,949	63,108	66,967	70,082	70,016	77,007	83,374	91,001	29.8	9.1	86,300	5.4
Operating expenses	81,604	92,779	98,511	101,528	105,018	112,246	124,636	134,621	32.6	8.0	126,187	6.7
Pre-Provisioning Profit (PPoP)	151,370	158,073	167,760	163,570	153,678	173,922	190,241	186,209	13.8	(2.1)	193,583	(3.8)
Growth YoY (%)	18.0	14.4	10.5	5.3	1.5	10.0	13.4	13.8	853bps	44bps	18.3	(451bps)
Provisions	48,308	39,247	29,940	33,124	31,877	32,401	28,064	26,854	(18.9)	(4.3)	30,513	(12.0)
Growth YoY (%)	24.1	6.0	(12.3)	(29.4)	(34.0)	(17.4)	(6.3)	(18.9)	1050bps	(1266bps)	(7.9)	(1105bps)
PBT	103,062	118,826	137,820	130,447	121,801	141,520	162,176	159,355	22.2	(1.7)	163,071	(2.3)
PAT	77,296	88,343	103,422	100,552	91,960	106,058	122,595	120,475	19.8	(1.7)	123,118	(2.1)
Growth YoY (%)	16.1	17.6	18.1	22.8	19.0	20.1	18.5	19.8	(301bps)	127bps	22.4	(263bps)
Per Share												
FV (Rs)	1	1	1	1	1	1	1	1	0.0	0.0	1	0.0
EPS (Rs)	14	16	19	18	17	19	22	22	19.1	(1.8)	22	(2.2)
Book Value (Rs)	384	395	414	433	451	456	480	502	16.0	4.7	487	3.2

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance Sheet & Others

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)	Q4FY23E	Variance (%)
Deposits	13,458,293	14,063,433	14,459,181	15,592,174	16,047,600	16,734,080	17,332,040	18,833,947	20.8	8.7	18,835,000	0.0
Growth YoY (%)	13.2	14.4	13.8	16.8	19.2	19.0	19.9	20.8	400bps	92bps	20.8	(1bps)
Advances	11,476,516	11,988,374	12,608,628	13,688,209	13,950,677	14,798,732	15,068,093	16,005,859	16.9	6.2	16,005,000	0.0
Growth YoY (%)	14.4	15.5	16.5	20.8	21.6	23.4	19.5	16.9	(390bps)	(257bps)	16.9	1bps
Investment	4,361,316	4,162,926	4,225,853	4,555,357	4,961,567	5,191,159	5,272,767	5,170,014	13.5	(1.9)	5,532,732	(6.6)
Equity	2,124,879	2,187,101	2,296,396	2,400,929	2,502,849	2,541,114	2,675,424	2,801,990	16.7	4.7	2,715,376	3.2
Assets	17,539,411	18,448,447	19,382,860	20,685,351	21,097,715	22,278,934	22,953,053	24,660,815	19.2	7.4	24,148,916	2.1
Growth YoY (%)	13.5	14.6	17.2	18.4	20.3	20.8	18.4	19.2	80bps	80bps	16.7	247bps
Yield (%)												
Yield on Funds	7.2	7.2	7.1	7.0	7.1	7.5	8.0	8.1	110bps	5bps	8.0	8bps
Cost of Funds	3.7	3.6	3.5	3.5	3.6	3.8	4.1	4.3	87bps	19bps	4.2	9bps
Spread	3.5	3.6	3.6	3.5	3.5	3.7	3.9	3.8	23bps	(14bps)	3.8	(1bps)
Net Interest Margin	4.0	4.1	4.1	3.9	3.9	4.1	4.3	4.2	24bps	(14bps)	4.2	2bps
Ratios (%)												
Other Income / Net Income	27.0	29.5	30.7	28.8	24.7	26.5	27.0	27.2	(159bps)	22bps	27.9	(66bps)
Cost to Income ratio	35.0	37.0	37.0	38.3	40.6	39.2	39.6	42.0	366bps	238bps	39.5	250bps
CASA ratio	45.5	46.8	47.1	48.2	45.8	45.4	44.0	44.4	(378bps)	37bps	44.4	0bps
C/D ratio	85.3	85.2	87.2	87.8	86.9	88.4	86.9	85.0	(280bps)	(195bps)	85.0	1bps
Investment to Assets	24.9	22.6	21.8	22.0	23.5	23.3	23.0	21.0	(106bps)	(201bps)	22.9	(195bps)
Assets Quality												
GNPA	170,985	163,461	160,136	161,410	180,337	183,010	187,639	180,190	11.6	(4.0)	204,470	(11.9)
NNPA	54,858	47,551	46,768	44,077	48,877	48,827	50,243	43,684	(0.9)	(13.1)	56,229	(22.3)
Provision	116,127	115,910	113,368	117,333	131,459	134,183	137,396	136,506	16.3	(0.6)	148,241	(7.9)
GNPA (%)	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.1	(5bps)	(11bps)	1.3	(14bps)
NNPA (%)	0.5	0.4	0.4	0.3	0.4	0.3	0.3	0.3	(5bps)	(6bps)	0.4	(8bps)
PCR (%)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	75.8	306bps	253bps	72.5	326bps
Others												
Branches	5,653	5,686	5,779	6,342	6,378	6,499	7,183	7,821	1,479	638	7,333	6.7
ATMs	16,291	16,642	17,238	18,130	18,620	18,868	19,007	19,727	1,597	720	19,432	1.5
Employees	123,473	129,341	134,412	141,579	152,511	161,027	166,890	173,222	31,643	6,332	172,326	0.5

Source: Company, BOBCAPS Research

Earnings call takeaways

Macro indicators

- High-frequency indicators suggest that domestic economy activity held up well in Q4FY23.
- Goods & services tax (GST) collections remained robust with an expansionary manufacturing & service PMI since Jul'21.
- The Indian Met Department (IMD) expects a normal monsoon this year which can lead to better activity in urban and semiurban areas.
- HDFCB estimates domestic GDP growth at over 6% for FY24.

Business & Networks

- The bank now offers wealth management from 923 locations, including 232 added during the quarter.
- HDFCB offers gold loans through 4,182 branches – up 3x since FY22.
- The bank has hired 6,300 people in Q4 and 31,600 in the past year.
- A total of 2.6mn new liability customers were added in Q4 and 10.6mn during the year.
- The bank added 1.4mn cards credit) in Q4, taking the total to 18mn.
- Demand is being seen from sectors such as NBFCs, telecom, public sector units (PSU) and retail.

P&L and Balance sheet

- Retail CASA grew 13% YoY in Q4 with savings accounts up 10%.
- HDFCB retained its thrust on the high-yield retail and commercial and rural banking (CRB) business, targeting more granular funds. It garnered ~Rs 1.1tn in retail deposits during the quarter, with the segment now forming 83% of its total deposits.
- Growth in retail advances was mainly driven by home and personal loans.
- The liquidity coverage ratio (LCR) stood at ~116% in Q4.
- NIM movement will depend on the loan mix; however, the bank expects margins to witness a positive bias with controlled cost measures.
- Retail fees contributed 94% of total fee income for the quarter.

Asset quality

- GNPA includes some standard accounts (~13bps of loans) which were added because the other facilities of borrowers were NPAs.
- The Q4 slippage ratio stood at 28bps and slippages totalled Rs 49bn.
- Recoveries and upgrades were at Rs 33bn (22bps of loans) along with write-offs at Rs 24bn (17bps). There was no sale of NPAs during the quarter.

- The restructured book totalled Rs 50bn (31bps of loans) in Q4 and additional exposure to these borrowers was at Rs 9.7bn (6bps), totaling to 37bps of loans.

Subsidiary performance

HDB Financials

- HDB Financials has opened 71 branches in Q4, taking its network to 1,492 branches spread across 1,054 cities.
- The customer base stands at 11.9mn with ~2.8mn added in the past one year.
- Stage-3 loans were at 2.73% in Q4. CAR was at 20.1% with tier-I CAR at 15.9%.
- PCR stood at 65% with 62%/96% on the secured/unsecured book.
- ROA was at 3.07% and ROE at 18.7% for FY23.

HDFC Securities

- HDFC Securities has a branch network of 209 spread across 147 cities and towns.
- The company has a client base of 4.5mn as of FY23.
- About 94% of active clients are using the digital platform.

Fig 3 – Loan book trend

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)	Mix (%)
Retail Loans											
Home Loans	722,350	757,540	789,920	830,560	882,490	930,500	975,930	1,020,670	22.9	4.6	6.1
Loan Against Property	516,960	544,260	577,360	622,480	651,160	693,130	724,360	767,730	23.3	6.0	4.6
Auto Loans	919,100	951,950	964,260	1,004,630	1,040,030	1,087,880	1,124,420	1,174,290	16.9	4.4	7.0
Two Wheelers	95,260	97,130	92,880	92,880	91,950	95,970	97,590	99,330	6.9	1.8	0.6
Gold Loans	82,130	81,090	81,980	83,500	88,080	94,340	100,420	108,420	29.8	8.0	0.6
Personal Loans	1,204,660	1,263,580	1,333,990	1,401,270	1,479,280	1,548,200	1,646,410	1,716,760	22.5	4.3	10.3
Payment products	630,920	677,830	733,050	767,570	801,420	819,660	833,140	861,040	12.2	3.3	5.1
Other retail Loans	411,370	456,040	484,070	514,790	544,400	535,800	563,740	597,540	16.1	6.0	3.6
Total Retail Loans	4,582,750	4,829,420	5,057,510	5,317,680	5,578,810	5,805,480	6,066,010	6,345,780	19.3	4.6	37.9
Commercial & Rural Banking											
Emerging Corporates	1,234,900	1,296,120	3,841,950	1,478,350	1,527,810	1,645,580	1,706,230	1,831,510	23.9	7.3	10.9
Business Banking	1,467,690	1,598,070	-	1,915,990	1,991,680	2,180,140	2,320,490	2,534,520	32.3	9.2	15.1
Commercial Transportation	659,690	696,010	-	807,570	845,370	918,900	996,840	1,108,310	37.2	11.2	6.6
Agriculture	501,050	560,040	560,310	646,450	615,790	702,780	709,120	817,190	26.4	15.2	4.9
Total Commercial Rural Banking	3,863,330	4,150,240	4,402,260	4,848,360	4,980,650	5,447,400	5,732,680	6,291,530	29.8	9.7	37.6
Corporate & Other Wholesale	3,146,210	3,124,230	3,261,820	3,640,110	3,639,390	3,967,790	3,922,540	4,097,120	12.6	4.5	24.5
Total Gross Loan	11,592,290	12,103,890	12,721,590	13,806,150	14,198,850	15,220,670	15,721,230	16,734,430	21.2	6.4	100

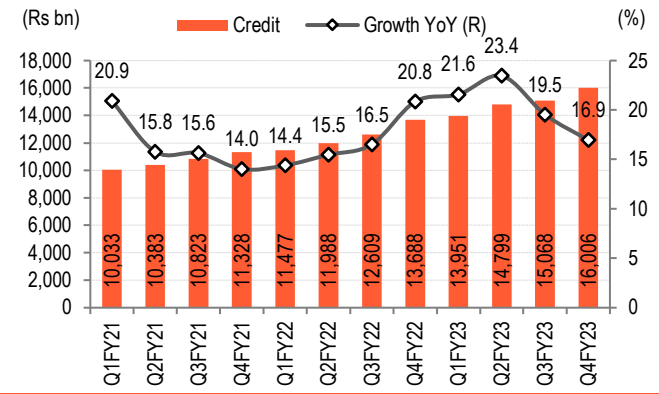
Source: Company, BOBCAPS Research

Fig 4 – Portfolio mix

(%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Retail Loans										
Home Loans	6.2	6.3	6.2	6.0	6.2	6.1	6.2	6.1	8bps	(11bps)
Loan Against Property	4.5	4.5	4.5	4.5	4.6	4.6	4.6	4.6	8bps	(2bps)
Auto Loans	7.9	7.9	7.6	7.3	7.3	7.1	7.2	7.0	(26bps)	(14bps)
Two Wheelers	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6	(8bps)	(3bps)
Gold Loans	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	4bps	1bps
Personal Loans	10.4	10.4	10.5	10.1	10.4	10.2	10.5	10.3	11bps	(21bps)
Payment products	5.4	5.6	5.8	5.6	5.6	5.4	5.3	5.1	(41bps)	(15bps)
Other retail Loans	3.5	3.8	3.8	3.7	3.8	3.5	3.6	3.6	(16bps)	(2bps)
Total Retail Loans	39.5	39.9	39.8	38.5	39.3	38.1	38.6	37.9	(60bps)	(66bps)
Commercial & Rural Banking										
Emerging Corporates	10.7	10.7	30.2	10.7	10.8	10.8	10.9	10.9	24bps	9bps
Business Banking	12.7	13.2	0.0	13.9	14.0	14.3	14.8	15.1	127bps	39bps
Commercial Transportation	5.7	5.8	0.0	5.8	6.0	6.0	6.3	6.6	77bps	28bps
Agriculture	4.3	4.6	4.4	4.7	4.3	4.6	4.5	4.9	20bps	37bps
Total Commercial Rural Banking	33.3	34.3	34.6	35.1	35.1	35.8	36.5	37.6	248bps	113bps
Corporate & Other Wholesale	27.1	25.8	25.6	26.4	25.6	26.1	25.0	24.5	(188bps)	(47bps)
Total Gross Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

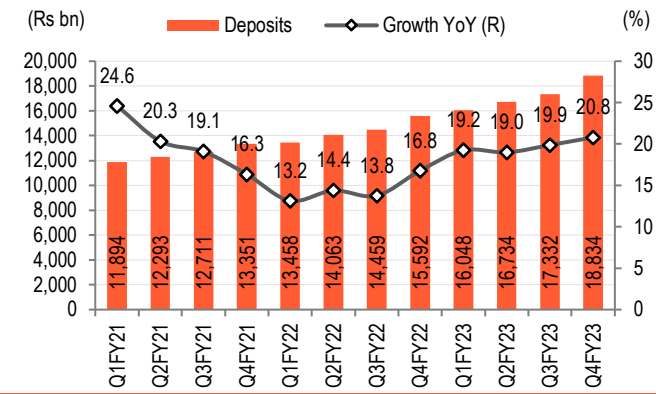
Source: Company, BOBCAPS Research

Fig 5 – Credit grew 17% YoY supported by CRB



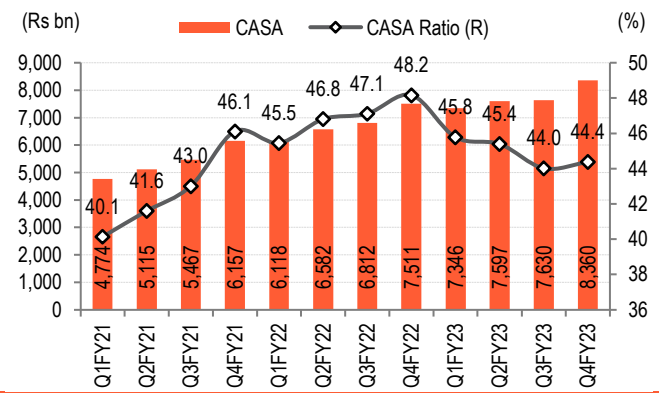
Source: Company, BOBCAPS Research

Fig 6 – Deposits grew 21% YoY, outpacing loan growth



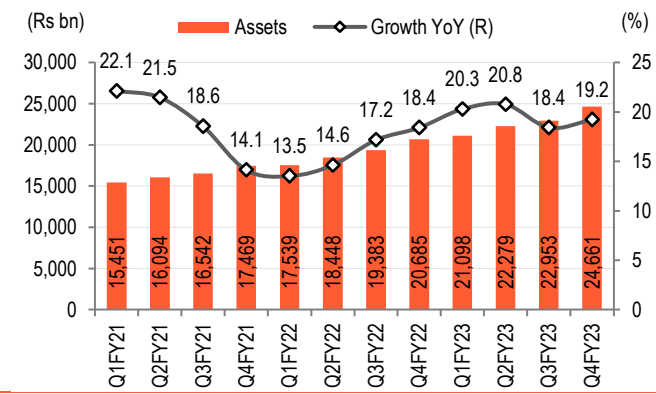
Source: Company, BOBCAPS Research

Fig 7 – CASA remained strong



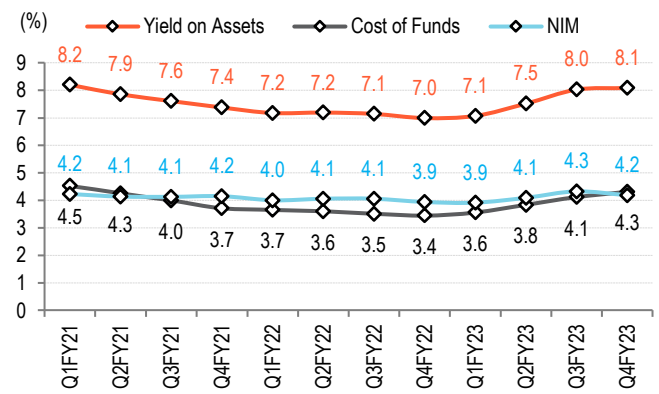
Source: Company, BOBCAPS Research

Fig 8 – Assets grew 19% YoY



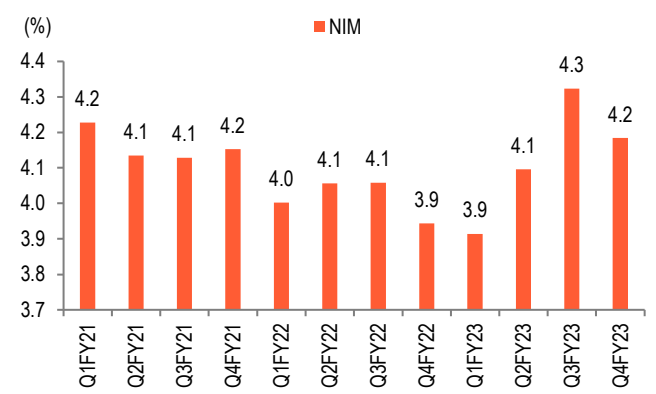
Source: Company, BOBCAPS Research

Fig 9 – Deposit repricing led to a higher cost of funds...



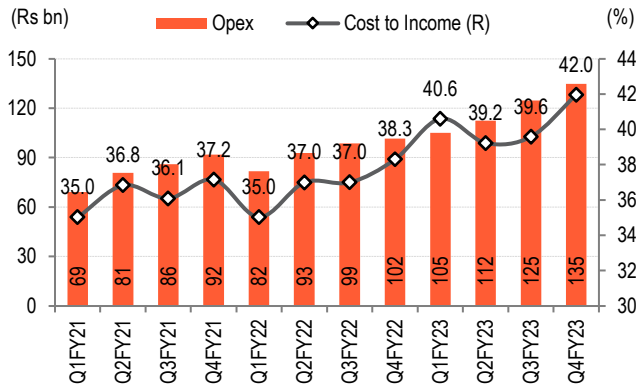
Source: Company, BOBCAPS Research

Fig 10 – Higher cost of fund causing NIM to contract 14bps QoQ



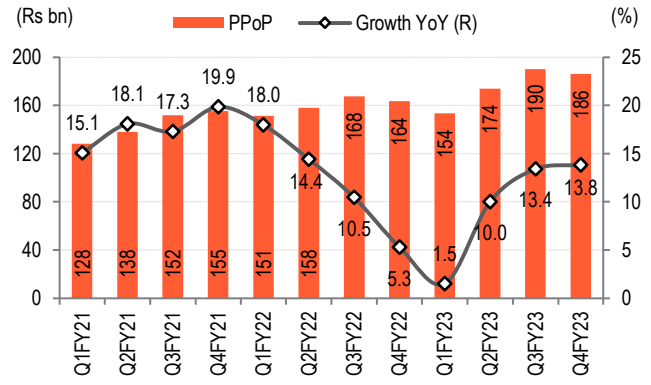
Source: Company, BOBCAPS Research

Fig 11 – Steady branch expansion kept CI elevated



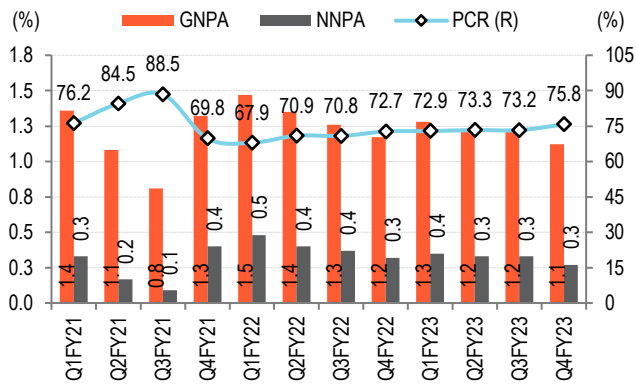
Source: Company, BOBCAPS Research

Fig 12 – PPOP grew 14% YoY



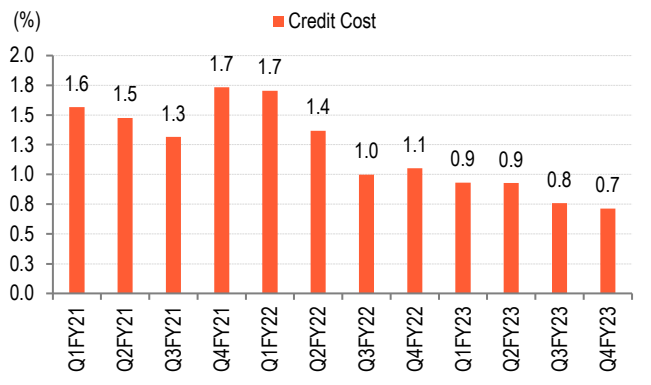
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improved QoQ



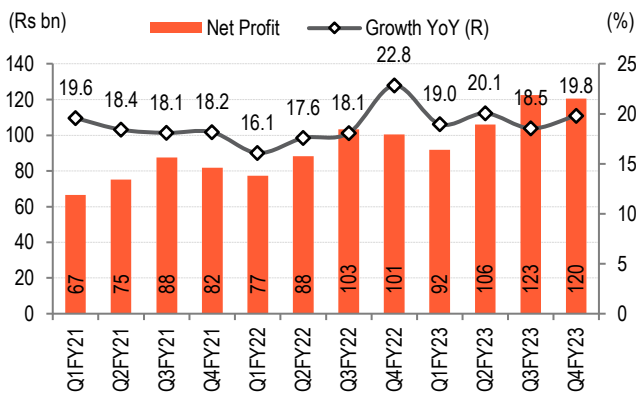
Source: Company, BOBCAPS Research

Fig 14 – Credit cost continued its downward trajectory



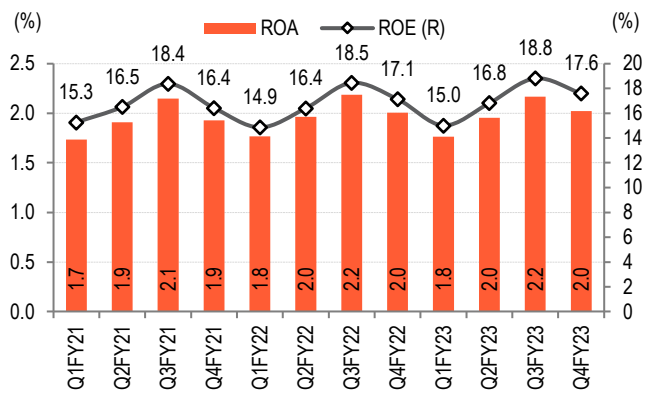
Source: Company, BOBCAPS Research

Fig 15 – PAT grew 20% YoY supported lower provisions



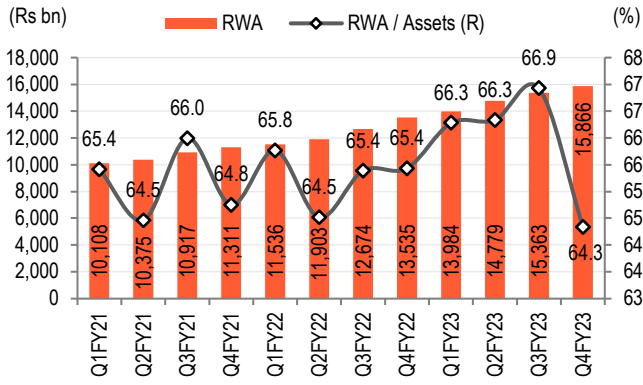
Source: Company, BOBCAPS Research

Fig 16 – High return ratios maintained



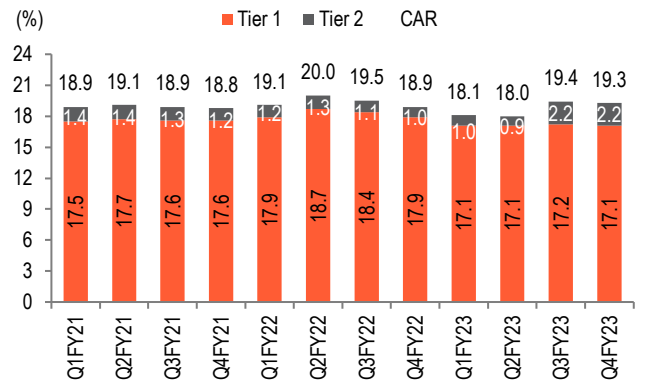
Source: Company, BOBCAPS Research

Fig 17 – RWA/Asset ratio improved



Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

Fig 18 – Well capitalised with CAR of 19.3%



Source: Company, BOBCAPS Research

Valuation methodology

HDFCB's Q4FY23 performance was in line with our estimates although operating expenses did move up. As expected, the bank indicated some margin compression ahead owing to a higher cost of funds amid the rising rate environment. We continue to estimate a credit CAGR of 18.6% and deposit CAGR of 19% over FY22-FY25. We expect incremental deposit cost to put some pressure on NII, leading to an 18% CAGR, with a sustainable NIM of 4.1% mainly on the back of high yielding assets which are likely to offset some of the margin pressure.

The bank's strategy of branch expansion largely in tier-2/3 cities (plans to add 1,300-1,400 branches in FY24) will likely keep its CI ratio elevated in the range of 41-42%, albeit with some moderation in FY25. On the back of the above strategy, we expect a 15% CAGR in PPOP over our forecast period.

We do not anticipate any major asset quality concerns over FY24-FY25 and model for stable GNPA/NNPA at 1.2%/0.35% in both years with a PCR of 72% in FY25. However, management has guided for a return of credit cost to pre-Covid levels of ~1% (currently at 65-70bps) as retail loan share rises. We now model for credit cost of 90bps and 96bps for FY24 and FY25 respectively vs. 83bps and 86bps forecast earlier, leading us to trim our FY24/FY25 PAT estimates by ~3% each. Our FY22-FY25 PAT CAGR forecast thus stands revised to 16% from 17%, with ROA/ROE of 1.9%/17% in FY25.

In our view, the bank's conservative strategy towards the overall business and specifically towards asset quality via buffer provisioning (floating, contingent, and general provisions form 176% of GNPA; PCR at 76%) will effectively rein in credit cost.

In terms of CAR, HDFCB is well capitalised at 19.3% wherein CET-1 stands at 17.1% (as on Q4FY23). We believe the bank's focus on the retail and CRB segments would add some risk-weighted assets to the balance sheet (RWA to total assets estimated at 65-66% for FY24/FY25) and keep CAR at a healthy 19%/18.2%. Strong capitalisation would offer scope to garner higher business share.

Given the healthy growth outlook for the bank, we retain our BUY rating. Post estimate revision, our SOTP-based TP stands revised from Rs 1,943 to Rs 1,956, set at 3.1x FY25E P/ABV (3.5x earlier) based on the Gordon Growth Model. We also add in Rs 56/sh as the value of the bank's subsidiaries.

Fig 19 – Revised estimates

Key Parameters (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	19,159,013	22,837,544	19,157,985	22,836,318	0.0	0.0
Deposits	22,412,396	26,558,690	22,413,650	26,560,175	0.0	0.0
Assets	28,322,483	33,497,229	28,312,615	33,486,065	0.0	0.0
NII	1,018,026	1,185,894	1,011,732	1,179,476	0.6	0.5
PPOP	824,074	970,156	830,548	970,090	(0.8)	0.0
Provision	156,289	200,699	145,516	179,682	7.4	11.7
PAT	499,503	575,553	512,404	591,225	(2.5)	(2.7)

Source: Company, BOBCAPS Research

Fig 20 – Key operational assumptions

(%)	FY22	FY23E	FY24E	FY25E
Advances	20.8	16.9	19.7	19.2
Net Interest Income	11.0	20.6	17.2	16.5
PPoP	11.7	9.9	17.0	17.7
PAT	18.8	19.3	13.2	15.2
NIM	3.9	4.1	4.1	4.0
GNPA	1.2	1.1	1.2	1.2
CAR	18.9	19.3	19.0	18.2

Source: Company, BOBCAPS Research

Fig 21 – Valuation assumptions

Gordon growth model	Assumptions
Risk-free rate (%)	6.3
Equity risk premium (%)	5.1
Beta	1.2
Cost of equity (%)	12.6
Blended ROE (%)	17.4
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	8.7
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	3.1

Source: Company, BOBCAPS Research

Fig 22 – Valuation summary

Business	Valuation	Holdings (%)	Rs/sh
HDFC Bank	3.1x FY25E ABV	100.0	1,900
HDB Financials	1.4x FY24E ABV	94.9	30
HDFC Securities	15x FY24E EPS	95.6	26
Total	-	-	1,956

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

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
PSU	Public Sector Unit	GST	Goods & Services Tax
LCR	Liquidity Coverage Ratio		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	648,796	720,096	868,422	1,018,026	1,185,894
NilI growth (%)	15.5	11.0	20.6	17.2	16.5
Non-interest income	252,049	295,099	312,148	384,129	448,193
Total income	900,845	1,015,195	1,180,571	1,402,155	1,634,087
Operating expenses	327,226	374,422	476,521	578,081	663,931
PPOP	573,618	640,773	704,050	824,074	970,156
PPOP growth (%)	17.7	11.7	9.9	17.0	17.7
Provisions	157,029	150,618	119,197	156,289	200,699
PBT	416,590	490,155	584,853	667,785	769,456
Tax	105,425	120,541	143,766	168,282	193,903
Reported net profit	311,165	369,614	441,087	499,503	575,553
Adjustments	0	0	0	0	0
Adjusted net profit	311,165	369,614	441,087	499,503	575,553

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	2,031,695	2,395,384	2,796,411	3,181,028	3,624,204
Net worth	2,037,208	2,400,929	2,801,990	3,186,608	3,629,784
Deposits	13,350,602	15,592,174	18,833,947	22,412,396	26,558,690
Borrowings	1,354,873	1,848,172	2,067,656	2,315,774	2,663,140
Other liab. & provisions	726,022	844,075	957,223	407,704	645,615
Total liab. & equities	17,468,705	20,685,350	24,660,815	28,322,483	33,497,229
Cash & bank balance	1,194,704	1,523,269	1,937,651	1,579,735	1,922,115
Investments	4,437,283	4,555,357	5,170,014	6,388,168	7,499,050
Advances	11,328,366	13,688,209	16,005,859	19,159,013	22,837,544
Fixed & Other assets	508,352	918,515	1,547,291	1,195,566	1,238,520
Total assets	17,468,705	20,685,351	24,660,815	28,322,483	33,497,229
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	29.9	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
YoY growth (%)					
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
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	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
Asset quality (%)					
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
Ratios (%)					
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%

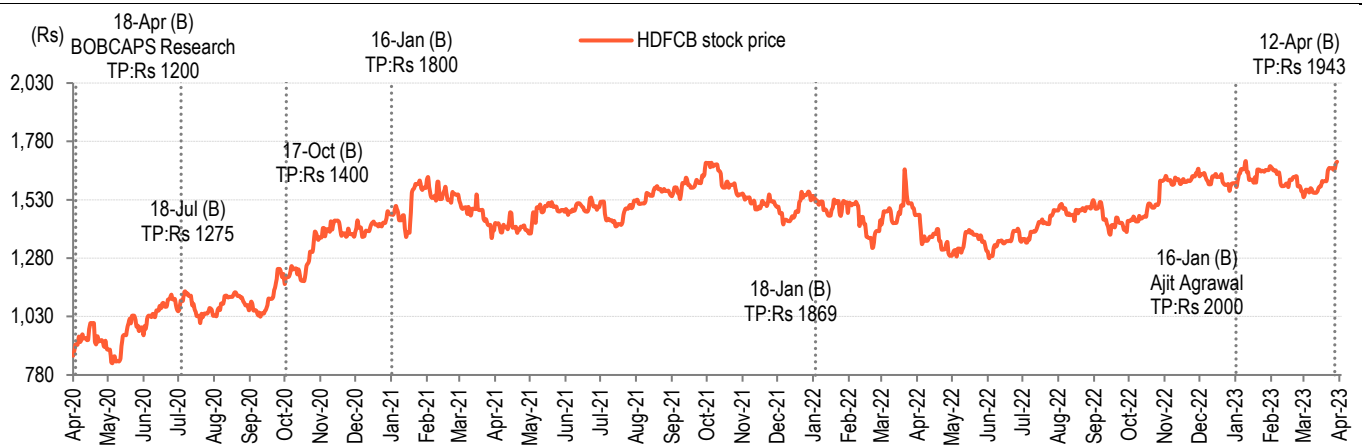
HOLD – Expected return from -6% to +15%

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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