HDFC Bank BUY

Credit growth slightly down; Stable NIMs

TP	Rs2,070
CMP	Rs1,601
Potential upside/downside	29%
Previous Rating	BUY

Key Stock Data	
Bloomberg / Reuters	HDFCB IN/HDBK.BO
Sector	Bank
Shares o/s (mn)	5,577
Market cap. (Rs mn)	8,927,549
3-m daily average value (Rs mn)	464.7
52-week high / low	Rs1,722/1,272
Sensex / Nifty	60,261 / 17,957

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.6)	11.2	3.6
Rel to Sensex	2.8	7.2	5.2

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	79.4	89.4	102.3
Consensus	78.3	90.0	108.1
% difference	*1.4*	*(0.7)*	*(5.3)*

Shareholding Pattern (%)

Promoters	25.6
FII	32.1
DII	26.0
Public	16.3

Summary

HDFC Bank's credit growth slightly down to 19.6% YoY vs 23.4% (Q2FY23) led by corporate book. Asset quality remains stable as GNPA stood at 1.23% vs 1.23% QoQ led by better recoveries. Annualized slippage ratio stood at 1.75% vs 1.5% QoQ. Restructured assets declined to 0.4% of advances vs 0.5% (QoQ) led by recoveries and write offs. Deposits growth remains strong at 20% YoY. NII grew by 9% QoQ and PPoP grew by 9% QoQ backed by 12% QoQ growth in other income; fee income grew by 8% QoQ. Provisions declined by 13% QoQ resulted into credit cost at 0.75% vs 0.9%. Thus, PAT grew by 15.6% QoQ. We have moved to FY25E estimates and maintain BUY rating with the new target price of Rs.2,070 (Rs.1,860) based on P/BV of 3.1x FY25. Need to watch out for dispensation on regulatory requirements.

Key Highlights and Investment Rationale

- **Credit growth slightly down:** HDFCB reported decline in credit growth to 20% YoY vs 23.4% YoY. Corporate and Wholesale book grew by 20% YoY, Commercial book grew by 31% YoY and retail book grew by 21% YoY. Also, Deposits growth remains improved at 20% YoY: CASA deposits grew by 12% resulted CASA ratio at 44% vs 45% QoQ.
- **Asset quality remains stable; NIMs stable:** Asset quality stable with GNPA at 1.23% vs 1.23% QoQ due to better recoveries. NIMs stable at 4.3%; further re-pricing of deposits should reflect in next quarter.
- **Outlook:** We need to watch for merger impact on the HDFC bank's regulatory requirements if RBI does not allow dispensation. However, banks focus on liability and PSL requirements could get through. We remain structurally positive on HDFCB given its superior credit underwriting, structurally better NIM and the ability to maintain higher RoA among its peers.

Financial snapshot (Rs mn)

Year	FY2021	FY2022	FY2023E	FY2024E	FY2025E
NII	6,48,796	7,20,096	8,52,418	9,82,316	11,06,086
Net Profit	3,11,165	3,69,614	4,40,328	4,95,825	5,67,167
EPS (Rs)	56.4	66.7	79.4	89.4	102.3
ABV (Rs)	363.9	427.6	498.6	582.5	678.3
PER (x)	28.3	24.0	20.2	17.9	15.6
P/ABV (x)	4.4	3.7	3.2	2.7	2.4
ROE (%)	16.6	16.7	16.9	16.3	16.1
ROA (%)	1.9	1.9	2.0	2.0	2.0
GNPA (%)	1.5	1.2	1.3	1.4	1.4
NNPA (%)	0.4	0.3	0.3	0.3	0.2
CAR (%)	18.8	18.9	18.5	17.9	18.0

Source: IDBI Capital Research

Conference Call Highlights

Operational Performance:

- Fee and commission income contributed around 3-4th of the other income (up by 19% YoY and 4% QoQ). Retail Fee income constitutes around 93% of fee income.
- Net trading and MTM income stood at around 261 Crs for Q3FY23 (vs. 253 Crs loss in Q2FY23 and 1,046 Crs gain in Q3FY23) and were mainly from AFS investments.
- Acquired 2.6 Mn new liability relationship in Q3FY23 (up by 12% YoY).

Asset Quality:

- Slippages ratio stood at around 42bps (6,600 Crs). Excluding slippages from Agri, core slippages stood at around 35bps (5,300 Crs).
- Recoveries and upgrades stood at 3,100 Crs of during Q3FY23 (around 21bps). Write offs were also around 3,100 Crs (around 21bps).
- Restructured book stood at around 42bps (around 6,400 Crs). Facility from the same borrowers which are not restructured stood at around 8bps (1,100 Crs), taking total slippages to 50bps. Prior qtr. slippage was around 62bps.
- Credit Cost stood at 74bps (94bps YoY and 87bps QoQ).

Other:

- Around 600 branches are in pipeline and in various stages of development.
- Card customer liability balance in the bank is around 5x over the card receivable balance (pre covid in the range of 3.5-4%).
- Avoided 30,000-40,000 Crs loan due to pricing issue.
- Issued 1.2 Mn credit cards during Q3FY23 taking the total base to 17 Mn cards.
- Received 315 Mn visits with over 100 Mn unique visitors (in Q3FY23, YoY Growth of around 30%) in HDFC Bank website.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Interest Income	4,27,078	3,24,681	3,85,864	*31.5*	*10.7*
Interest Expenses	1,97,199	1,40,246	1,75,652	*40.6*	*12.3*
Net Interest Income	**2,29,878**	**1,84,435**	**2,10,212**	***24.6***	***9.4***
NIM Calc.(%)	***4.30***	***4.30***	***4.30***	***0 bps***	***0 bps***
Non-Interest Income	84,998	81,836	75,956	*3.9*	*11.9*
Operating Income	**3,14,877**	**2,66,270**	**2,86,167**	***18.3***	***10.0***
Staff Cost	41,262	31,544	35,238	*30.8*	*17.1*
Other Op Exp	83,374	66,967	77,007	*24.5*	*8.3*
Total Operating Expenses	1,24,636	98,511	1,12,246	*26.5*	*11.0*
Cost to Income (%)	*39.6*	*37.0*	*39.22*	*259 bps*	*36 bps*
Operating Profit	**1,90,241**	**1,67,760**	**1,73,922**	***13.4***	***9.4***
Provisions	28,064	29,940	32,401	*-6.3*	*-13.4*
PBT	**1,62,176**	**1,37,820**	**1,41,520**	***17.7***	***14.6***
Tax	39,581	34,398	35,463	*15.1*	*11.6*
-effective tax rate	*24.4*	*25.0*	*25.1*	*-55 bps*	*-65 bps*
PAT	**1,22,595**	**1,03,422**	**1,06,058**	***18.5***	***15.6***
EPS (Rs)	22.0	18.7	19.0	*17.8*	*15.5*
BV (Rs)	479.7	414.3	456.2	*15.8*	*5.2*
Deposits	1,73,32,040	1,44,59,181	1,67,34,080	*19.9*	*3.6*
Advances	1,50,68,093	1,26,08,628	1,47,98,732	*19.5*	*1.8*

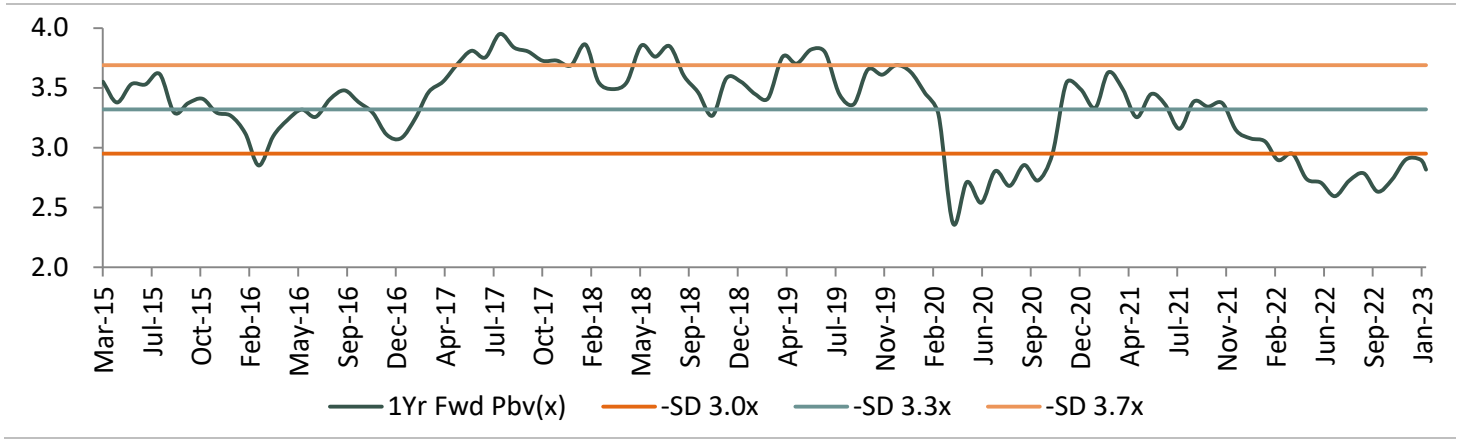
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23E	FY24E	FY25E
NII	4.0	3.8	3.8	3.9	3.8
Fees	1.3	1.4	1.4	1.4	1.4
Other Income	0.2	0.1	0.0	0.1	0.1
Net Revenue	5.5	5.3	5.3	5.4	5.4
Op.Exp	2.0	2.0	2.1	2.2	2.1
Op.Profit	3.5	3.4	3.2	3.2	3.2
Provisions	1.0	0.8	0.6	0.6	0.6
PBT	2.5	2.6	2.7	2.6	2.6
Tax	0.6	0.6	0.7	0.7	0.7
ROA	1.9	1.9	2.0	2.0	2.0
Leverage (x)	8.7	8.6	8.5	8.3	8.2
ROE	16.6	16.7	16.9	16.3	16.1

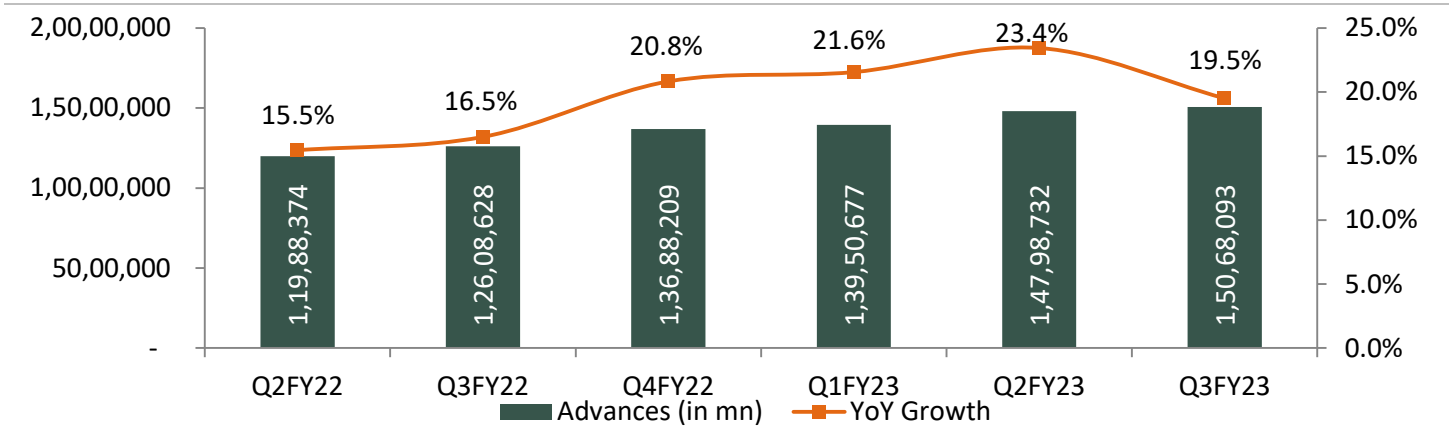
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



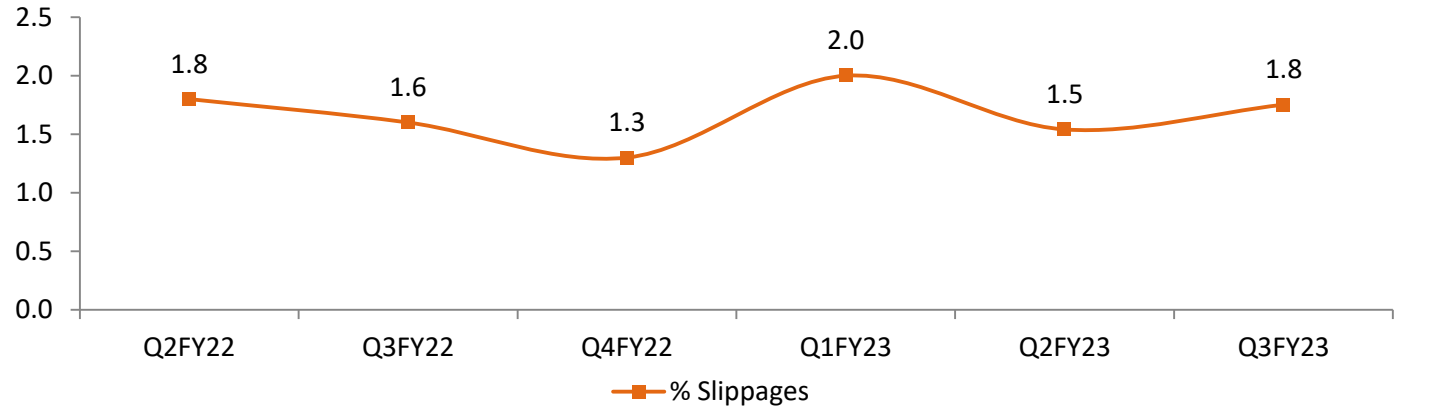
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth witnessed downtick sequentially



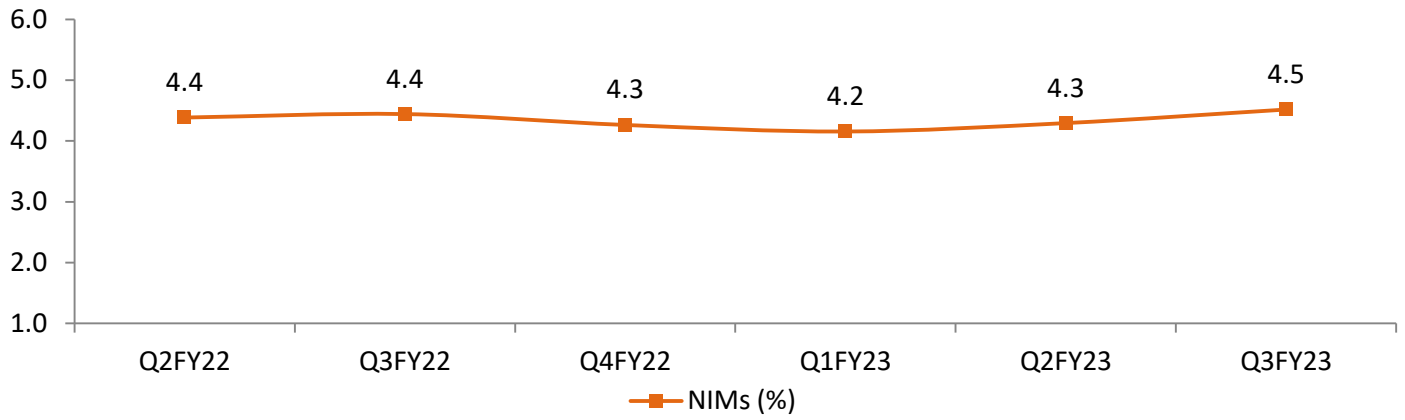
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio increased marginally sequentially



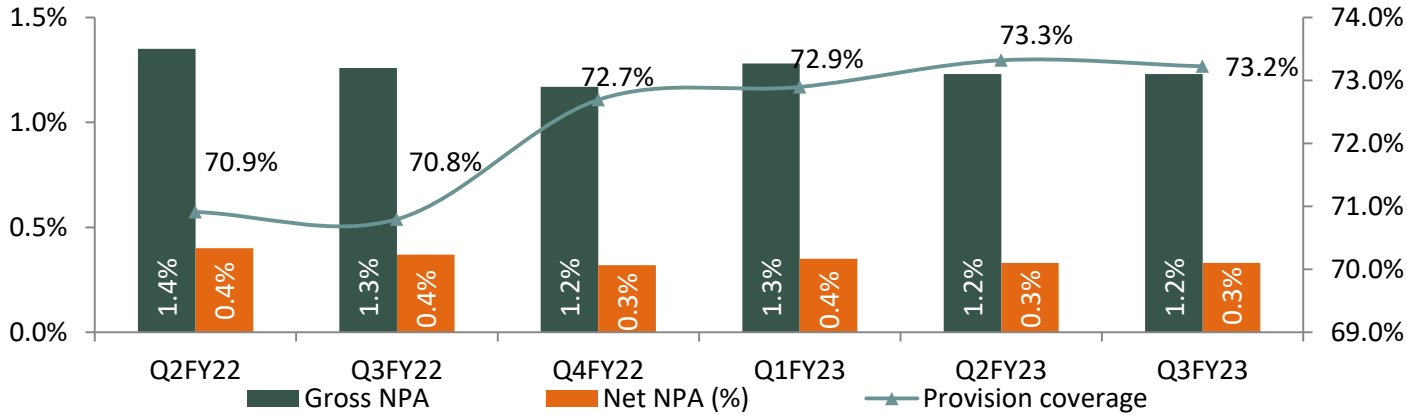
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins continued to witness uptick sequentially



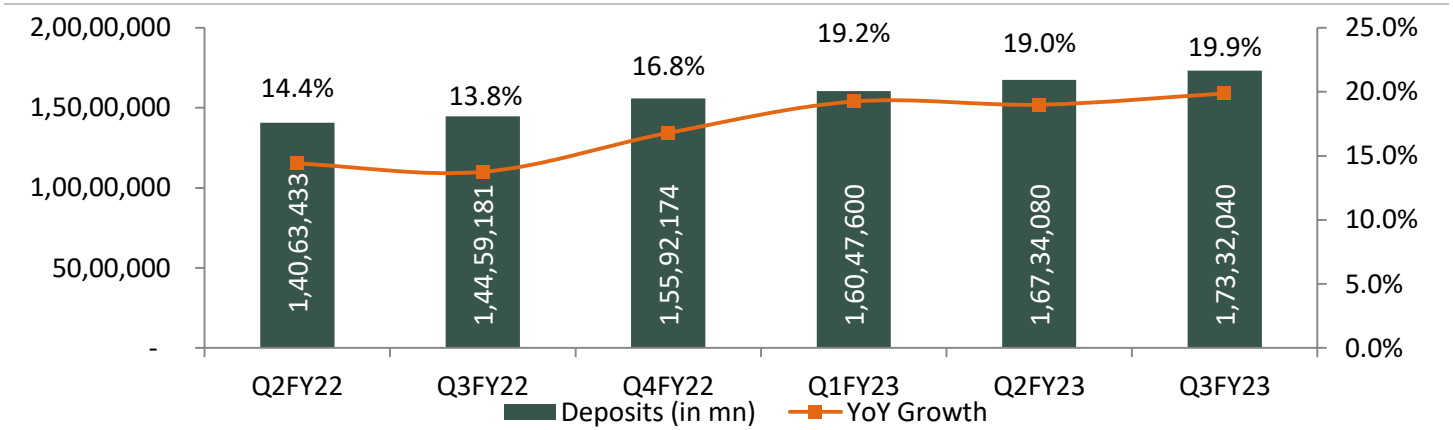
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality remained stable sequentially



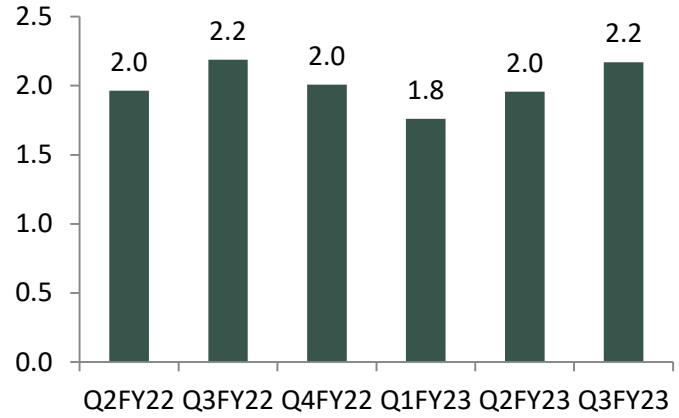
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth witnessed strong up tick sequentially



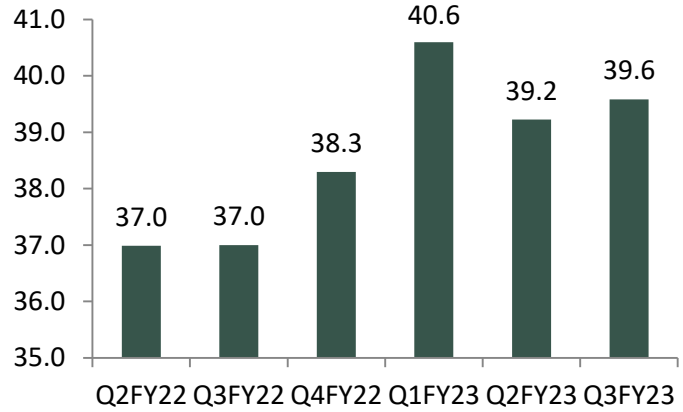
Source: Company; IDBI Capital Research

Exhibit 9: RoA remained stable on YoY basis



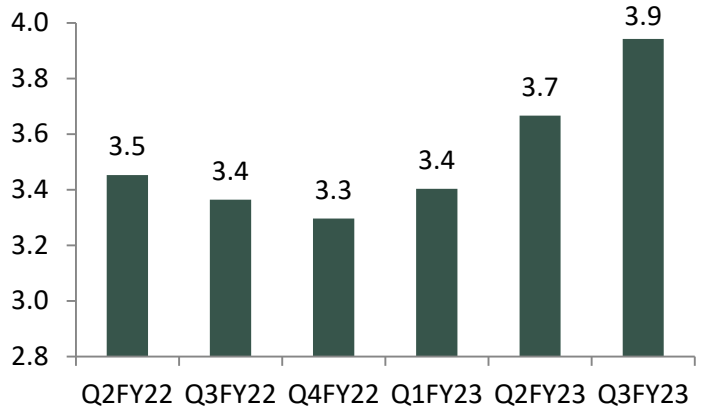
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio remained stable sequentially



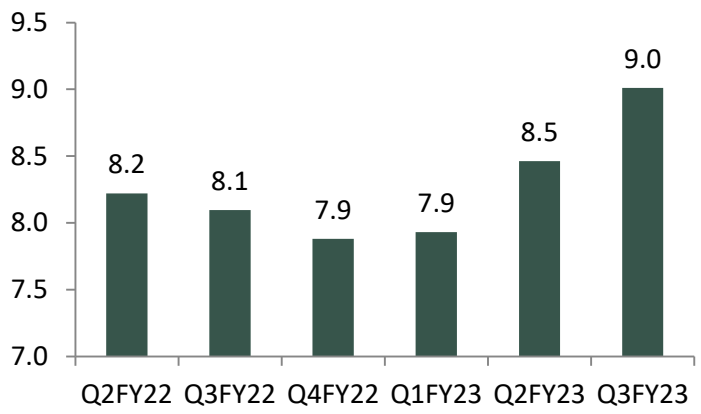
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Funds witnessed sharp uptick QoQ



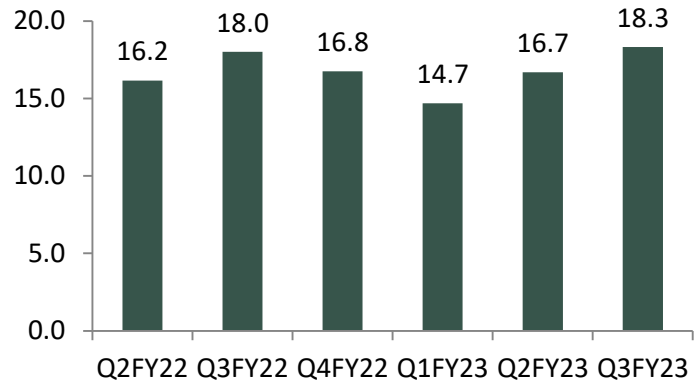
Source: Company; IDBI Capital Research

Exhibit 12: Yield on Advance continued to improve sequentially



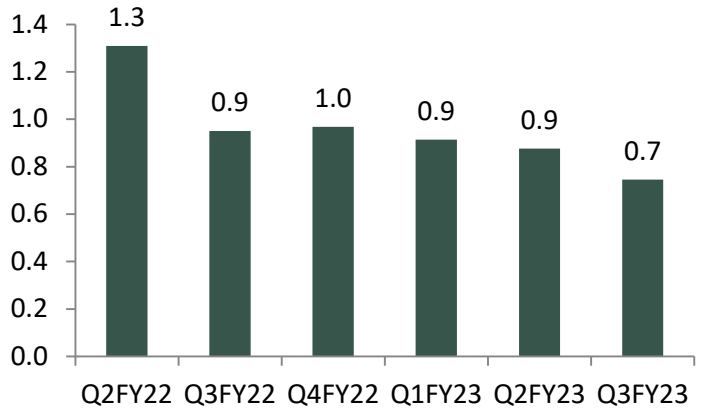
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity improved on a QoQ basis



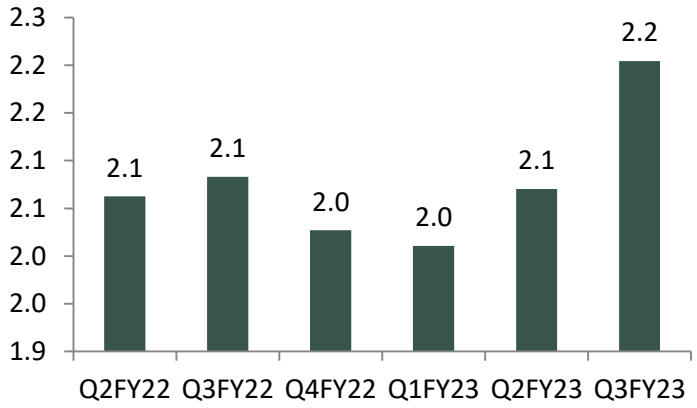
Source: Company; IDBI Capital Research

Exhibit 14: Credit Cost witnessed downtrend QoQ (Annualized)



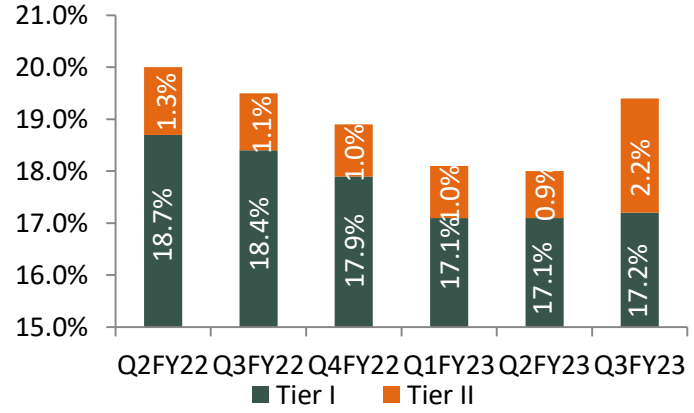
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Assets inched up marginally QoQ



Source: Company; IDBI Capital Research

Exhibit 16: CAR continues to remain strong



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	**5,61,862**	**6,48,796**	**7,20,096**	**8,52,418**	**9,82,316**	**11,06,086**
Change (yoy, %)	*16%*	*15%*	*11%*	*18%*	*15%*	*13%*
Fees	2,13,006	2,12,894	2,71,566	3,17,799	3,52,115	4,09,778
Other Income	19,602	39,154	23,533	4,854	26,203	28,215
Net Revenue	7,94,470	9,00,844	10,15,195	11,75,071	13,60,635	15,44,079
Operating expenses	3,06,975	3,27,226	3,74,422	4,55,921	5,43,352	6,08,623
Employee expenses	95,257	1,03,648	1,20,317	1,52,819	1,73,631	1,78,356
Other expenses	2,11,718	2,23,578	2,54,105	3,03,102	3,69,721	4,30,267
Pre-Provision Profit	**4,87,495**	**5,73,618**	**6,40,773**	**7,19,150**	**8,17,283**	**9,35,456**
Change (yoy, %)	*23%*	*18%*	*12%*	*12%*	*14%*	*14%*
Provision	1,21,424	1,57,028	1,50,618	1,30,712	1,54,680	1,77,515
PBT	3,66,071	4,16,590	4,90,155	5,88,437	6,62,602	7,57,941
Taxes	1,03,498	1,05,425	1,20,541	1,48,110	1,66,777	1,90,774
Effective tax rate (%)	*28%*	*25%*	*25%*	*25%*	*25%*	*25%*
Net profit	**2,62,573**	**3,11,165**	**3,69,614**	**4,40,328**	**4,95,825**	**5,67,167**
Change (yoy, %)	*25%*	*19%*	*19%*	*19%*	*13%*	*14%*
EPS	47.9	56.4	66.7	79.4	89.4	102.3
ROE	16.4	16.6	16.7	16.9	16.3	16.1
ROA	1.9	1.9	1.9	2.0	2.0	2.0

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capital	5,483	5,513	5,546	5,546	5,546	5,546
Reserves	17,04,377	20,31,696	23,95,384	27,99,788	32,59,689	37,90,932
Networth	**17,09,860**	**20,37,209**	**24,00,929**	**28,05,333**	**32,65,234**	**37,96,478**
Deposits	**1,14,75,023**	**1,33,50,602**	**1,55,92,174**	**1,85,48,828**	**2,17,46,941**	**2,48,91,752**
Current deposits	17,42,479	21,21,821	23,93,106	31,53,301	36,96,980	42,31,598
Saving deposits	31,03,771	40,35,001	51,17,385	55,64,648	65,24,082	74,67,526
Term deposit	66,28,773	71,93,780	80,81,683	98,30,879	1,15,25,879	1,31,92,629
Borrowings	14,46,286	13,54,873	18,48,172	19,38,870	17,50,772	18,70,819
Other liabilities	6,73,944	7,26,021	8,44,075	3,23,461	1,47,671	1,05,820
Total Liab. & Equity	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,36,16,492**	**2,69,10,619**	**3,06,64,869**
Cash	8,66,187	11,94,705	15,23,269	12,98,418	14,55,099	16,68,088
Advances	99,37,029	1,13,28,366	1,36,88,209	1,61,52,087	1,90,59,463	2,19,18,382
Investments	39,18,267	44,37,282	45,55,357	51,52,578	53,28,480	59,57,443
Fixed Assets	44,319	49,093	60,837	69,962	76,958	80,806
Other Assets	5,39,311	4,59,259	8,57,678	9,43,446	9,90,618	10,40,149
Total assets	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,36,16,492**	**2,69,10,619**	**3,06,64,869**

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
Deposits	24.3	16.3	16.8	19.0	17.2	14.5
Advances	21.3	14.0	20.8	18.0	18.0	15.0
NII	16.5	15.5	11.0	18.4	15.2	12.6
Pre-Provision Profit	22.6	17.7	11.7	12.2	13.6	14.5
Net Profit	24.6	18.5	18.8	19.1	12.6	14.4
Spreads						
Yield on Assets	9.0	7.9	7.2	7.7	7.7	7.6
Cost of Funds	5.0	4.1	3.5	3.8	3.7	3.7
NIM	4.4	4.3	4.1	4.2	4.2	4.2
CASA	42.2	46.1	48.2	47.0	47.0	47.0
Operating Efficiency						
Cost-to-Income	38.6	36.3	36.9	38.8	39.9	39.4
Cost-to-Assets	2.2	2.0	2.0	2.1	2.2	2.1
Asset Quality						
GNPA	1.6	1.5	1.2	1.3	1.4	1.4
NNPA	0.4	0.4	0.3	0.3	0.3	0.2
Provision Coverage	78.2	72.7	72.7	73.9	81.4	84.5
Credit Cost	1.0	1.1	0.8	0.8	0.8	0.8
Capital Adequacy						
CAR	18.5	18.8	18.9	18.5	17.9	18.0
Tier I	17.2	17.6	17.9	16.9	16.7	16.9
Valuation						
EPS	48	56	67	79	89	102
ABV	308	364	428	499	582	678
P/E	33.4	28.3	24.0	20.2	17.9	15.6
P/ABV	5.2	4.4	3.7	3.2	2.7	2.4
ROE	16.4	16.6	16.7	16.9	16.3	16.1
ROA	1.9	1.9	1.9	2.0	2.0	2.0
RORWA	2.7	2.9	3.0	2.7	2.4	2.4

Source: Company; IDBI Capital Research

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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Analyst Disclosures

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