HDFC Bank BUY

Credit growth at 20%+; Asset quality improved

TP	Rs2,020
CMP	Rs1,465
Potential upside/downside	38%
Previous Rating	BUY

Key Stock Data	
Bloomberg / Reuters	HDFCB IN/HDBK.BO
Sector	Bank
Shares o/s (mn)	5,546
Market cap. (Rs mn)	8,123,386
3-m daily average value (Rs mn)	451.0
52-week high / low	Rs1,724 / 1,292
Sensex / Nifty	58,339 / 17,476

Price Performance (%)	-1m	-3m	-12m
Absolute	1.2	(5.2)	2.5
Rel to Sensex	(1.5)	(0.5)	(16.9)

V/s Consensus			
EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	66.7	78.7	94.3
Consensus	67.3	79.5	93.2
% difference	*(0.8)*	*(1.0)*	*1.1*

Shareholding Pattern (%)	
Promoters	25.8
FII	35.6
DII	16.9
Public	21.7

Summary

HDFC Bank reported improvement in credit growth to 20.8% YoY vs 14.0% YoY (Q4FY21) supported by rise in commercial and rural loan growth (30% YoY and 10% QoQ).Recoveries and upgrades during the quarter was around 2,100 Cr. Asset quality improved with GNPA at 1.17% vs 1.26% QoQ led by lower slippages. Annualized slippage ratio declined to 1.3% vs 1.6% QoQ. Deposits growth improved and stood at 16.8% YoY. NII grew slowly by 10.2% YoY, however NIMs remain stable. PPoP grew by 5.3% YoY as cost to income ratio increased to 38.3%; fee income grew by 1.56% YoY. Provision declined by 29.4% YoY resulted into low credit cost at 0.97% vs 0.95% in Q3 FY22. Thus, PAT grew by 22.8% YoY. We maintain BUY rating with the target price of Rs.2,020 based on P/BV of 3.53x FY24.

Key Highlights and Investment Rationale

- **Credit growth improvement continues:** HDFCB reported improvement in credit growth to 20.8% YoY vs 14.0% YoY. Wholesale book grew by 17.4% and retail book grew by 15.2% YoY. Also, Deposits growth remains improved at 16.8% YoY: CASA deposits grew by 22% resulted CASA ratio at 48.2% vs 46.1% YoY.
- **Asset quality improved; restructured assets stood at 15.7 Bn:** Asset quality improved with GNPA at 1.17% vs 1.32% YoY. Restructured loan stood at 15.7Bn. Bank guided for 10-20bps impact on asset quality.
- **Outlook:** We believe HDFCB to gain market share led by strong leadership position across segments, large distribution, digital focus and strong capital adequacy. 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	FY2020	FY2021	FY2022	FY2023E	FY2024E
NII	5,61,862	6,48,796	7,20,095	8,44,080	10,04,681
Net Profit	2,62,573	3,11,165	3,69,615	4,36,409	5,22,688
EPS (Rs)	47.9	56.4	66.7	78.7	94.3
ABV (Rs)	308.0	363.9	433.9	494.5	573.1
PER (x)	30.6	26.0	22.0	18.6	15.5
P/ABV (x)	4.8	4.0	3.4	3.0	2.6
ROE (%)	16.4	16.6	16.7	16.8	17.4
ROA (%)	1.9	1.9	1.9	1.9	2.0
GNPA (%)	1.3	1.3	1.2	1.2	1.2
NNPA (%)	0.4	0.4	0.3	0.3	0.3
CAR (%)	18.5	18.9	18.8	18.4	17.9

Source: IDBI Capital Research

Conference Call Highlights

Key Highlights (Overview)

- LCR average for the quarter was 112%. The floor limit for LCR is around 110% and there are low chances of further optimization. Comfortable at a range of around 110-115%.
- Slippage Ratio for the quarter annualized was around 1.3% about 4,000 Cr vs. 1.6% in Q3 FY22.
- Recoveries and upgrades during the quarter was around 2,100 Cr.
- Write off during the quarter was 1,700 Cr. Restructuring for Covid'19 was around 15,700 Cr. 37% pertains to those customers who preferred to restructure only one of their facility. Out of the remaining 63%, 41% is secured and 59% is unsecured.
- Credit Cost annualized for the quarter was 96 Basis Point which includes contingent provision of around 30 basis point.
- Specific provision coverage ratio was 73%. As on 31st March'22 , total provision consisting of Fixed, floating , contingent and specific provision was around 182% of gross non-performing loans.
- Expanding network through association with Airtel Payment Bank, India Post Payment Bank and Manipal Business Solutions having around 60 Mn, 50 Mn and 30 Mn customer network strength.
- Market Share in advances has improved 10% to 11% during FY22. Incremental share of Credit Growth in the economy was around 24%. In Deposits, Market Share has improved from 8.8% to 9.5% during the year.
- Outstanding card as on 31st March'22 was 16.5 Mn. 8.2 Lakhs new Cards were added during Q4 FY22. Added 21.8 Lakhs cards since withdrawal of the embargo that was imposed by RBI.
- In Q4 FY22, received a total of 234 Million visits on HDFC Bank website averaging 29 million unique customers per month registering a YoY growth of around 8%. As per analysis, HDFC Bank website had 35-75% more visits on its website as compared to its peers. Close to 57% of the visits were through mobile devices.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)
Interest Income	3,34,487	3,04,236	3,24,681	*9.9*	*3.0*
Interest Expenses	1,45,760	1,33,034	1,40,246	*9.6*	*3.9*
Net Interest Income	**1,88,727**	**1,71,202**	**1,84,435**	***10.2***	***2.3***
NIM Calc.(%)	***4.3***	***4.4***	***4.4***	***-14 bps***	***-18 bps***
Non-Interest Income	76,371	75,939	81,836	*0.6*	*-6.7*
Operating Income	**2,65,098**	**2,47,141**	**2,66,270**	***7.3***	***-0.4***
Staff Cost	31,446	26,789	31,544	*17.4*	*-0.3*
Other Op Exp	70,082	65,024	66,967	*7.8*	*4.7*
Total Operating Expenses	1,01,528	91,813	98,511	*10.6*	*3.1*
Cost to Income (%)	*38.3*	*37.2*	*37.0*	*115 bps*	*130 bps*
Operating Profit	**1,63,570**	**1,55,328**	**1,67,760**	***5.3***	***-2.5***
Provisions	33,124	46,937	29,940	*-29.4*	*10.6*
PBT	**1,30,447**	**1,08,391**	**1,37,820**	***20.3***	***-5.3***
Tax	29,895	26,526	34,398	*12.7*	*-13.1*
-effective tax rate	*22.9*	*24.5*	*25.0*	*-156 bps*	*-204 bps*
PAT	**1,00,552**	**81,865**	**1,03,422**	***22.8***	***-2.8***
EPS (Rs)	36.3	29.7	37.3	*22.1*	*-2.8*
BV (Rs)	865.9	739.1	828.7	*17.2*	*4.5*
Deposits	1,55,92,174	1,33,50,602	1,44,59,181	*16.8*	*7.8*
Advances	1,36,88,209	1,13,28,366	1,26,08,628	*20.8*	*8.6*

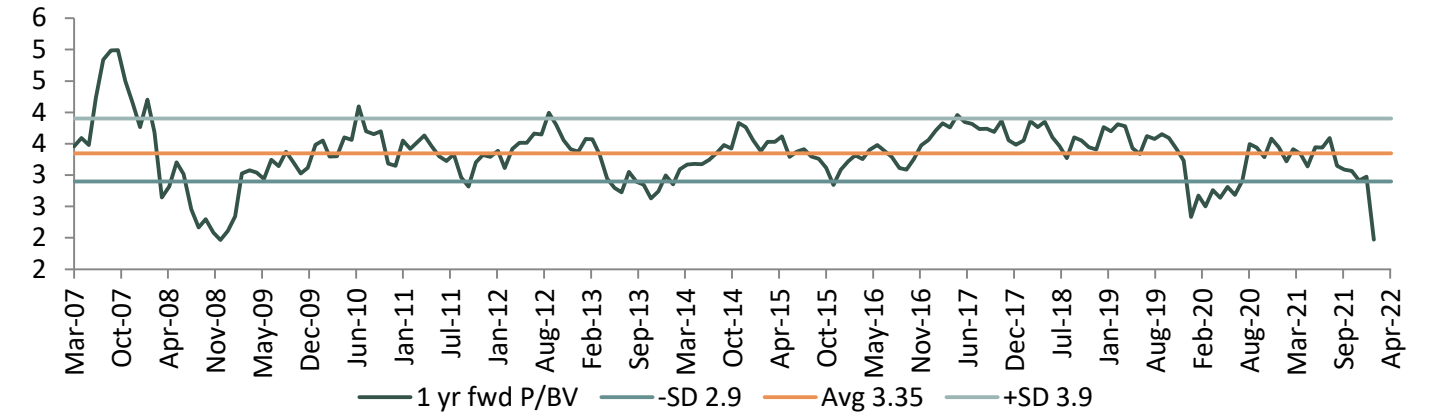
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22	FY23E	FY24E
NII	4.05	3.96	3.77	3.75	3.79
Fees	1.54	1.30	1.02	1.33	1.33
Other Income	0.14	0.24	0.52	0.20	0.21
Net Revenue	5.73	5.50	5.32	5.28	5.33
Op. Exp	2.21	2.00	1.96	1.95	1.94
Op. Profit	3.51	3.50	3.36	3.33	3.39
Provisions	0.88	0.96	0.79	0.74	0.75
PBT	2.64	2.54	2.57	2.59	2.64
Tax	0.75	0.64	0.63	0.65	0.66
ROA	1.89	1.90	1.94	1.94	1.97
Leverage (x)	8.67	8.75	8.60	8.67	8.80
ROE	16.40	16.61	16.66	16.81	17.37

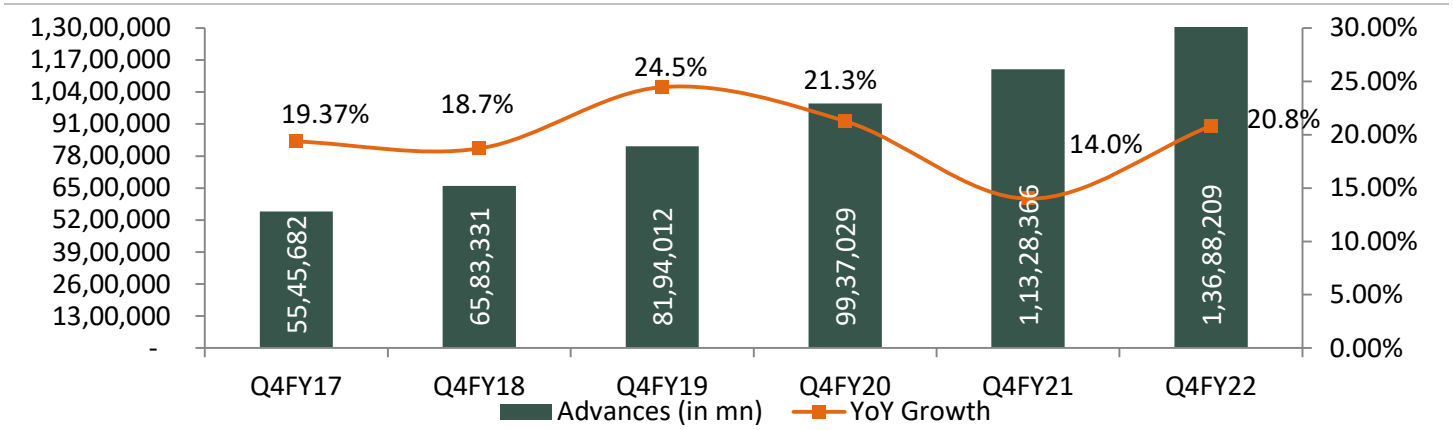
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



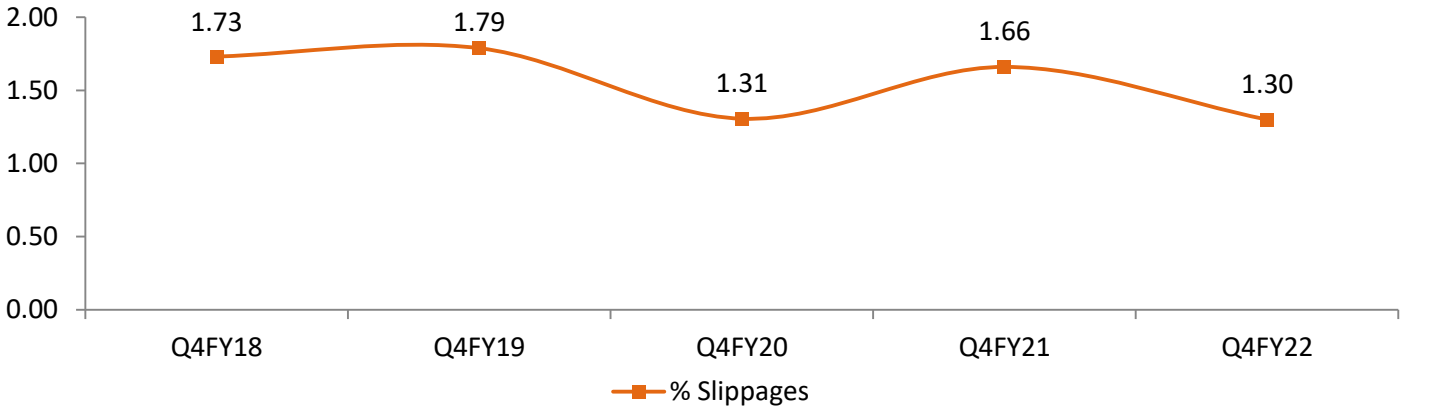
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth has continued to remain strong



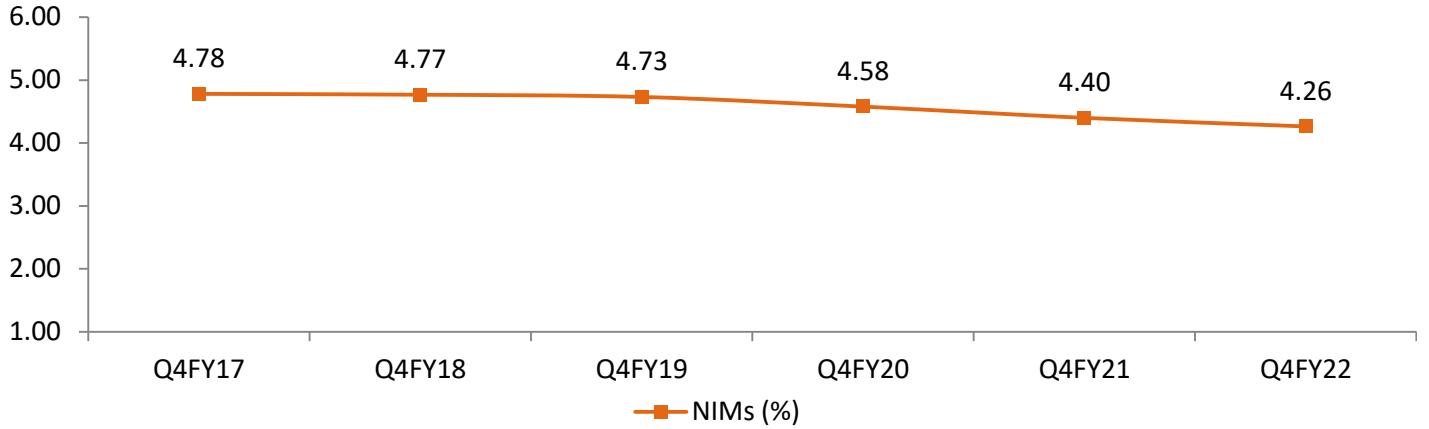
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio has declined consistently



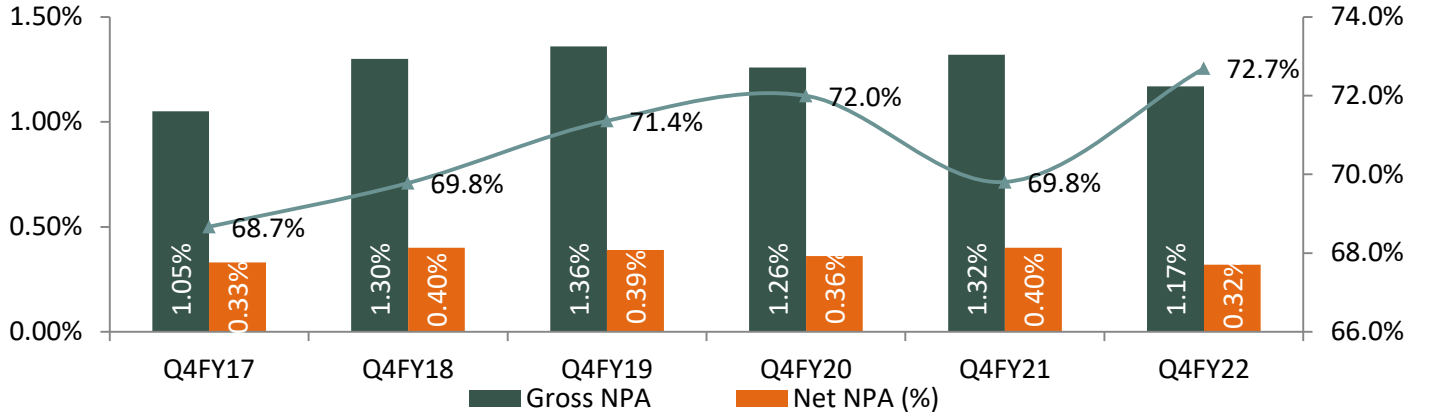
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins continue to see downtrend.



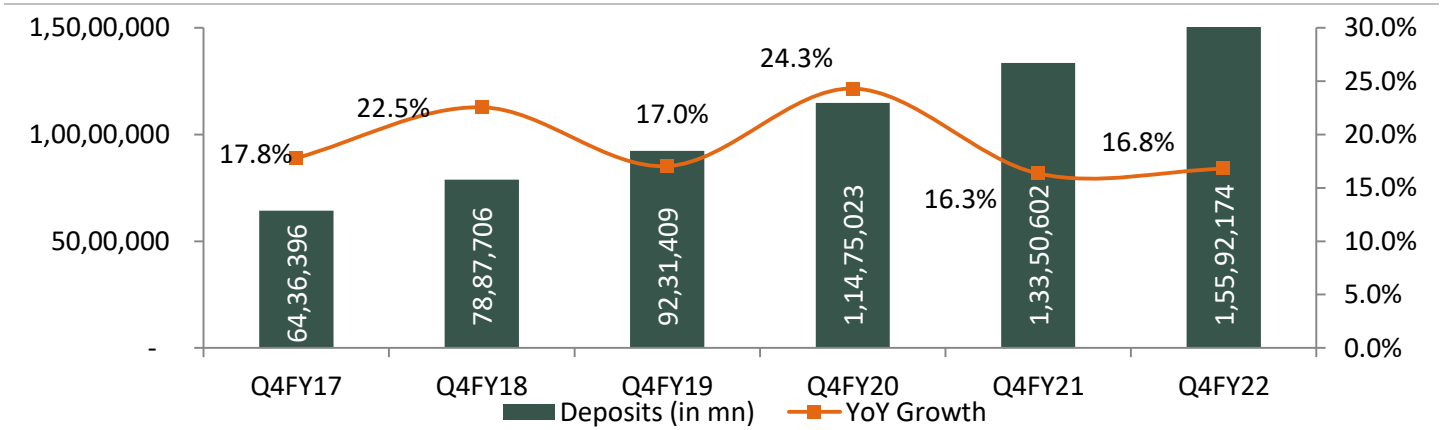
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality showed strong improvement



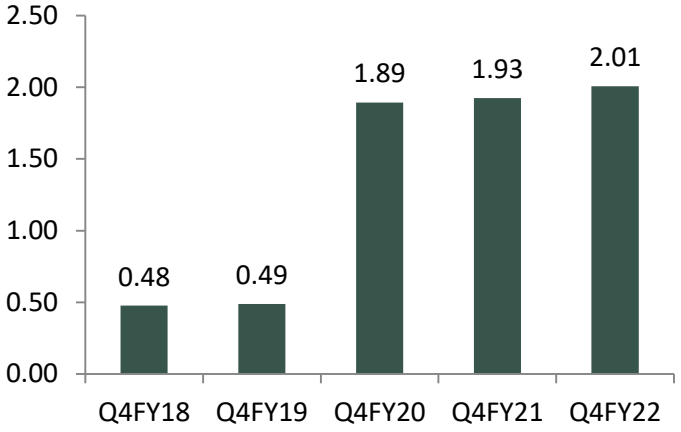
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth showed uptick



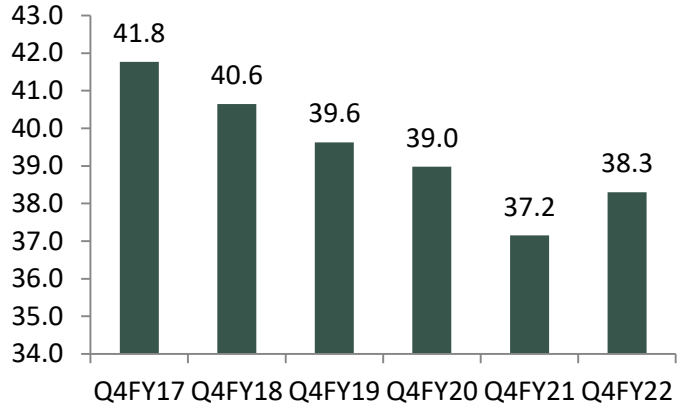
Source: Company; IDBI Capital Research

Exhibit 9: RoA improves YoY basis



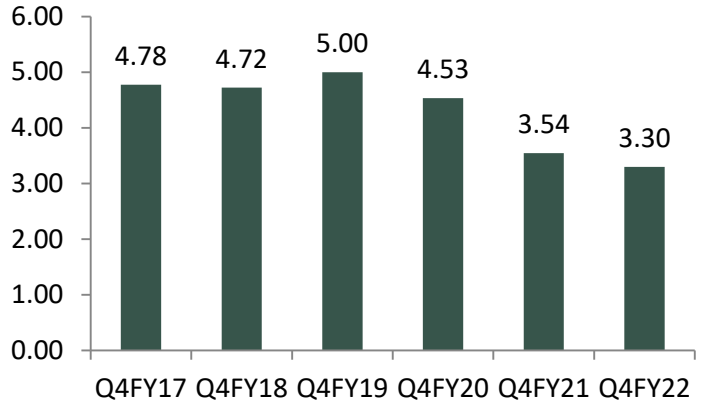
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio inched up



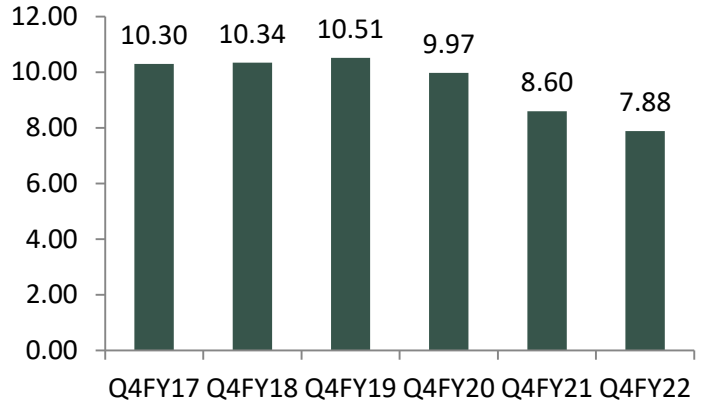
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Funds shows gradual improvement



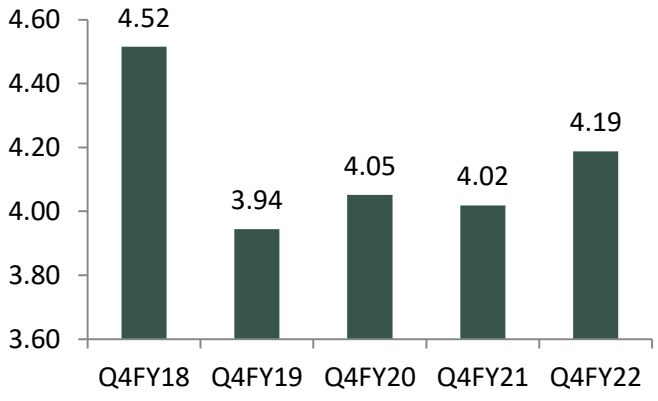
Source: Company; IDBI Capital Research

Exhibit 12: Yield on Advances dwindles YoY basis



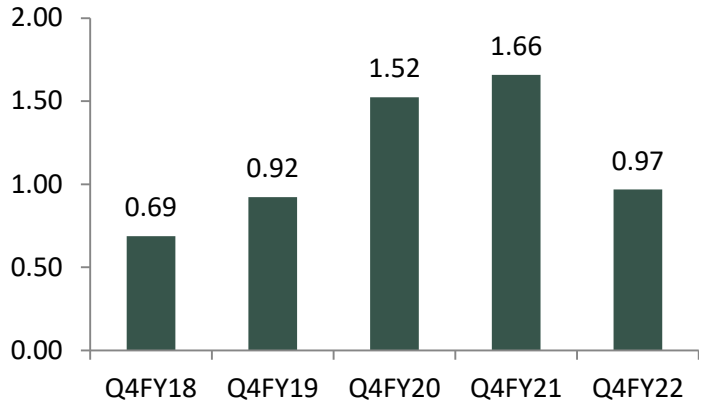
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity shows improved



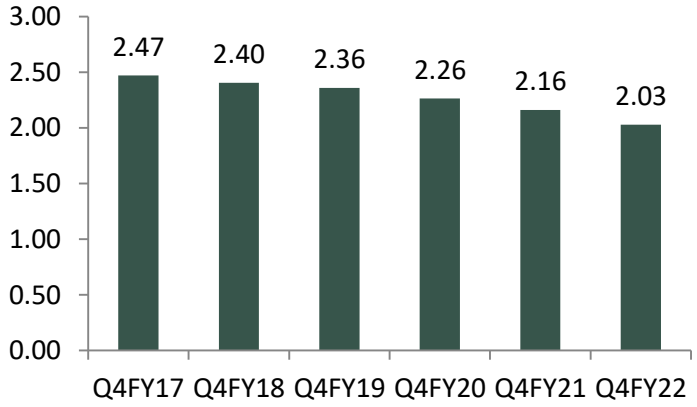
Source: Company; IDBI Capital Research

Exhibit 14: Credit Cost shows improvement (Annualized)



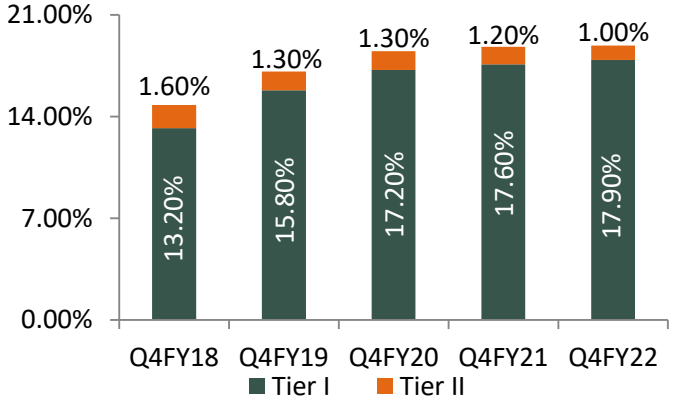
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Assets improved modestly



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	FY19	FY20	FY21	FY22	FY23E	FY24E
Net interest income	**4,82,431**	**5,61,862**	**6,48,796**	**7,20,095**	**8,44,080**	**10,04,681**
Change (yoy, %)		*16.46%*	*15.47%*	*10.99%*	*17.22%*	*19.03%*
Fees	1,72,325	2,13,006	2,12,894	1,95,367	2,98,403	3,52,115
Other Income	3,933	19,602	39,154	99,735	45,741	54,409
Net Revenue	6,58,689	7,94,470	9,00,844	10,15,197	11,88,224	14,11,205
Operating expenses	2,61,193	3,06,975	3,27,226	3,74,422	4,38,781	5,14,010
Employee expenses	77,618	95,257	1,03,648	1,20,317	1,32,918	1,44,288
Other expenses	1,83,575	2,11,718	2,23,578	2,54,105	3,05,863	3,69,721
Pre-Provision Profit	**3,97,496**	**4,87,495**	**5,73,618**	**6,40,776**	**7,49,444**	**8,97,196**
Change (yoy, %)		*22.64%*	*17.67%*	*11.71%*	*16.96%*	*19.71%*
Provision	75,501	1,21,424	1,57,028	1,50,619	1,66,243	1,98,695
PBT	3,21,995	3,66,071	4,16,590	4,90,157	5,83,201	6,98,501
Taxes	1,11,215	1,03,498	1,05,425	1,20,542	1,46,792	1,75,813
Effective tax rate (%)	*34.54%*	*28.27%*	*25.31%*	*24.59%*	*25.17%*	*25.17%*
Net profit	**2,10,780**	**2,62,573**	**3,11,165**	**3,69,615**	**4,36,409**	**5,22,688**
Change (yoy, %)		*24.57%*	*18.51%*	*18.78%*	*18.07%*	*19.77%*
EPS	38.7	47.9	56.4	66.7	78.7	94.3
ROE	16.5	16.4	16.6	16.7	16.8	17.4
ROA	1.8	1.9	1.9	1.9	1.9	2.0

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	5,447	5,483	5,513	5,546	5,546	5,546
Reserves	14,86,616	17,04,377	20,31,696	23,95,384	27,86,163	32,21,933
Networth	**14,92,063**	**17,09,860**	**20,37,209**	**24,00,929**	**27,91,709**	**32,27,478**
Deposits	**92,31,409**	**1,14,75,023**	**1,33,50,602**	**1,55,92,175**	**1,85,48,828**	**2,20,37,678**
Current deposits	14,24,978	17,42,479	21,21,821	23,93,110	31,53,301	37,46,405
Saving deposits	24,87,004	31,03,771	40,35,001	51,17,390	55,64,648	66,11,304
Term deposit	53,19,428	66,28,773	71,93,780	80,81,680	98,30,879	1,16,79,970
Borrowings	11,70,852	14,46,286	13,54,873	18,48,172	19,53,266	20,13,610
Other liabilities	5,51,083	6,73,944	7,26,021	8,44,075	10,57,859	13,33,951
Total Liab. & Equity	**1,24,45,406**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,43,51,662**	**2,86,12,717**
Cash	8,13,476	8,66,187	11,94,705	15,23,269	14,94,068	17,63,000
Advances	81,94,012	99,37,029	1,13,28,366	1,36,88,209	1,61,52,087	1,90,59,463
Investments	29,05,879	39,18,267	44,37,282	45,55,357	56,09,373	64,81,585
Fixed Assets	40,300	44,319	49,093	60,837	66,920	73,613
Other Assets	4,91,739	5,39,311	4,59,259	8,57,678	10,29,214	12,35,057
Total assets	**1,24,45,406**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,43,51,662**	**2,86,12,717**

Financial Ratios

(%)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth						
Deposits	17.0	24.3	16.3	16.8	19.0	18.8
Advances	24.5	21.3	14.0	20.8	18.0	18.0
NII	20.3	16.5	15.5	11.0	17.2	19.0
Pre-Provision Profit	21.8	22.6	17.7	11.7	17.0	19.7
Net Profit	20.5	24.6	18.5	18.8	18.1	19.8
Spreads						
Yield on Assets	9.3	9.0	7.9	7.3	7.3	7.3
Cost of Funds	5.2	5.0	4.1	3.5	3.5	3.5
NIM	4.5	4.4	4.3	4.1	4.1	4.1
CASA	42.4	42.2	46.1	48.2	47.0	47.0
Operating Efficiency						
Cost-to-Income	39.7	38.6	36.3	36.9	36.9	36.4
Cost-to-Assets	2.3	2.2	2.0	2.0	1.9	1.9
Asset Quality						
GNPA	1.4	1.3	1.3	1.2	1.2	1.2
NNPA	0.4	0.4	0.4	0.3	0.3	0.3
Provision Coverage	71.4	72.0	69.8	72.7	74.1	78.6
Credit Cost	0.9	1.0	1.1	1.2	1.1	1.1
Capital Adequacy						
CAR	17.1	18.5	18.9	18.8	18.4	17.9
Tier I	15.8	17.2	17.9	17.1	16.8	16.5
Valuation						
EPS	38.7	47.9	56.4	66.7	78.7	94.3
ABV	270.7	308.0	363.9	433.9	494.5	573.1
P/E	30.6	26.0	22.0	18.6	15.5	30.6
P/BV	4.7	4.0	3.4	2.9	2.5	4.7
ROE	16.5	16.4	16.6	16.7	16.8	17.4
ROA	1.8	1.9	1.9	1.9	1.9	2.0
RORWA	2.4	2.7	2.7	2.5	2.5	2.6

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.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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