IDBI capital

HDFC Bank — BUY

Asset quality deteriorated due to seasonality

Summary

HDFC Bank's asset quality deteriorated as GNPA stood at 1.28% vs 1.17% due to seasonality (higher Agri NPA in Q1). Annualized slippage ratio increased to 2.0% vs 1.6% QoQ. Credit growth remain robust at 21.6% YoY vs 20.8% (FY22) led by retail and commercial banking segments. Restructured assets declined to 0.8% of advances vs 1.4% (QoQ) led by recoveries and write offs. Deposits growth improved and stood at 19% YoY. NII grew slowly by 14.5% YoY, however NIMs remain stable. PPoP grew by 1.5% YoY due to treasury loss of Rs.13bn; fee income grew by 38% YoY. Provision declined by 34% YoY resulted into low credit cost at 0.9% vs 1.0% in Q4 FY22. Thus, PAT grew by 19% YoY. We maintain BUY rating with the revised target price of Rs.1,860 (earlier Rs.2,020) based on P/BV of 3.2x FY24 (earlier 3.5X) as merger impact needs to be seen.

Key Highlights and Investment Rationale

- **Credit growth improvement continues:** HDFCB reported improvement in credit growth to 21.6% YoY vs 20.8% YoY. Corporate and Wholesale book grew by 15.7%, Commercial book grew by 29% YoY and retail book grew by 22% YoY. Also, Deposits growth remains improved at 19.2% YoY: CASA deposits grew by 20% resulted CASA ratio at 45.8%.
- **Asset quality deteriorated due to seasonality:** Asset quality deteriorated with GNPA at 1.28% vs 1.17% YoY due to higher Agri NPA (seasonally). NIMs remain stable QoQ; however re-pricing of loans should reflect in next 2 quarters.
- **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.

TP	Rs1,860
CMP	**Rs1,364**
Potential upside/downside	36%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.5	(6.9)	(10.4)
Rel to Sensex	2.1	1.0	(11.5)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	77.5	88.2
Consensus	78.1	91.2
% difference	*(0.8)*	*(3.3)*

Key Stock Data

Bloomberg / Reuters	HDFCB IN/HDBK.BO
Sector	Bank
Shares o/s (mn)	5,555
Market cap. (Rs mn)	7,576,597
3-m daily average value (Rs mn)	451.0
52-week high / low	Rs1,724/1,272
Sensex / Nifty	53,761 / 16,049

Shareholding Pattern (%)

Promoters	25.7
FII	32.3
DII	18.8
Public	23.2

Financial snapshot (Rs mn)

Year	FY2020	FY2021	FY2022	FY2023E	FY2024E
NII	5,61,862	6,48,796	7,20,096	8,51,904	9,87,504
Net Profit	2,62,573	3,11,165	3,69,614	4,29,594	4,89,122
EPS (Rs)	47.9	56.4	66.7	77.5	88.2
ABV (Rs)	308.0	363.9	427.6	497.6	579.3
PER (x)	28.5	24.2	20.5	17.6	15.5
P/ABV (x)	4.4	3.7	3.2	2.7	2.4
ROE (%)	16.40	16.61	16.66	16.54	16.19
ROA (%)	1.89	1.90	1.94	1.93	1.89
GNPA (%)	1.62	1.46	1.17	1.92	2.08
NNPA (%)	0.36	0.40	0.32	0.30	0.25
CAR (%)	18.52	18.79	18.90	17.90	17.12

Source: IDBI Capital Research

Conference Call Highlights

Operational Performance:

- Had a trading and MTM loss of 1,312 Crs in Q1FY23 vs. gain of 600 Crs in Q1FY22 due to spike in benchmark yield during Q1FY23.
- Other income of around 1,080 Crs were due to recoveries from written off accounts and dividends from subsidiaries.
- Tech spends ranges around 8-9% of the total operating expenses. It may see some fluctuations during the quarter but for the entire year it would continue to be in the same range.
- Acquired 2.6 Mn new liability relationships during Q1FY23, witnessing a growth of 59% YoY and 10% QoQ.

Asset Quality:

- Recovery and upgrades for Q1FY23 stood at 3,000 Crs (around 22 bps) while the write off were 2,400 Crs (around 17 bps). Recoveries recorded as miscellaneous in other income amounts to around 23 bps of the gross advances during the quarter vs. 14 bps in Q1FY22 and 26 bps in Q4FY22.
- GNPA for Q1FY23 was 1.28% and if GNPA from Agri is excluded, GNPA is around 1.03% vs. 1.01% in Q4FY22 and 1.26% in Q1FY22.
- Cheque bounce rate across various retail product categories remain low compared to pre covid level during June'22.
- Slippage ratio for Q1FY23 was 0.5% and stood at around 7,200 Crs while the credit cost (annualized) for Q1FY23 stood at 91 bps (vs. 1.67% for Q1FY22 and 96 bps in Q4FY22).Excluding the seasonal agri. and one of slippage, the ratio during Q1FY23 stood at 38 bps**.**

Other:

- Issued highest ever quarterly 1.2 Mn new credit cards during Q1FY23, witnessing a growth of 47% QoQ.
- Have around 48.9% market share in cards receivable, 27.7% in card spends and around 47% in merchant acquiring business.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Interest Income	3,51,720	3,04,829	3,34,487	*15.4*	*5.2*
Interest Expenses	1,56,906	1,34,740	1,45,760	*16.5*	*7.6*
Net Interest Income	**1,94,814**	**1,70,089**	**1,88,727**	***14.5***	***3.2***
NIM Calc.(%)	***4.16***	***4.26***	***4.26***	***-10 bps***	***-11 bps***
Non-Interest Income	63,882	62,885	76,371	*1.6*	*-16.4*
Operating Income	**2,58,697**	**2,32,974**	**2,65,098**	***11.0***	***-2.4***
Staff Cost	35,002	27,656	31,446	*26.6*	*11.3*
Other Op Exp	70,016	53,948	70,082	*29.8*	*-0.1*
Total Operating Expenses	1,05,018	81,604	1,01,528	*28.7*	*3.4*
Cost to Income (%)	*40.6*	*35.0*	*38.30*	*557 bps*	*230 bps*
Operating Profit	**1,53,678**	**1,51,370**	**1,63,570**	***1.5***	***-6.0***
Provisions	31,877	48,308	33,124	*-34.0*	*-3.8*
PBT	**1,21,801**	**1,03,062**	**1,30,447**	***18.2***	***-6.6***
Tax	29,841	25,766	29,895	*15.8*	*-0.2*
-effective tax rate	*24.5*	*25.0*	*22.9*	*-50 bps*	*158 bps*
PAT	**91,960**	**77,296**	**1,00,552**	***19.0***	***-8.5***
EPS (Rs)	16.6	14.0	18.1	*18.4*	*-8.7*
BV (Rs)	450.6	384.5	433.0	*17.2*	*4.1*
Deposits	1,60,47,600	1,34,58,293	1,55,92,174	*19.2*	*2.9*
Advances	1,39,50,677	1,14,76,516	1,36,88,209	*21.6*	*1.9*

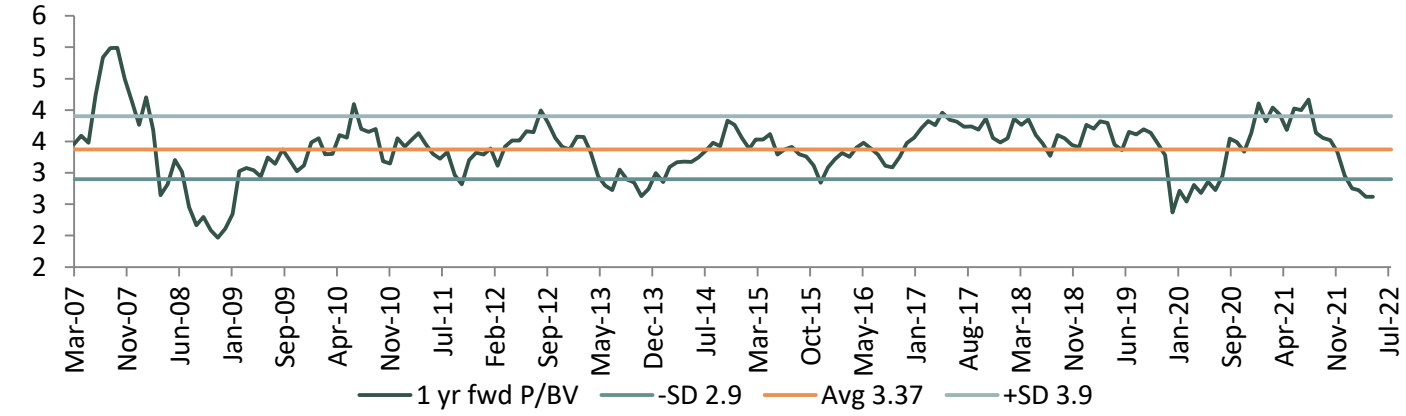
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22	FY23E	FY24E
NII	4.05	3.96	3.77	3.82	3.82
Fees	1.54	1.30	1.42	1.35	1.40
Other Income	0.14	0.24	0.12	0.20	0.18
Net Revenue	5.73	5.50	5.32	5.37	5.41
Op.Exp	2.21	2.00	1.96	2.03	2.08
Op.Profit	3.51	3.50	3.36	3.34	3.33
Provisions	0.88	0.96	0.79	0.77	0.80
PBT	2.64	2.54	2.57	2.58	2.53
Tax	0.75	0.64	0.63	0.65	0.64
ROA	1.89	1.90	1.94	1.93	1.89
Leverage (x)	8.67	8.75	8.60	8.58	8.55
ROE	16.40	16.61	16.66	16.54	16.19

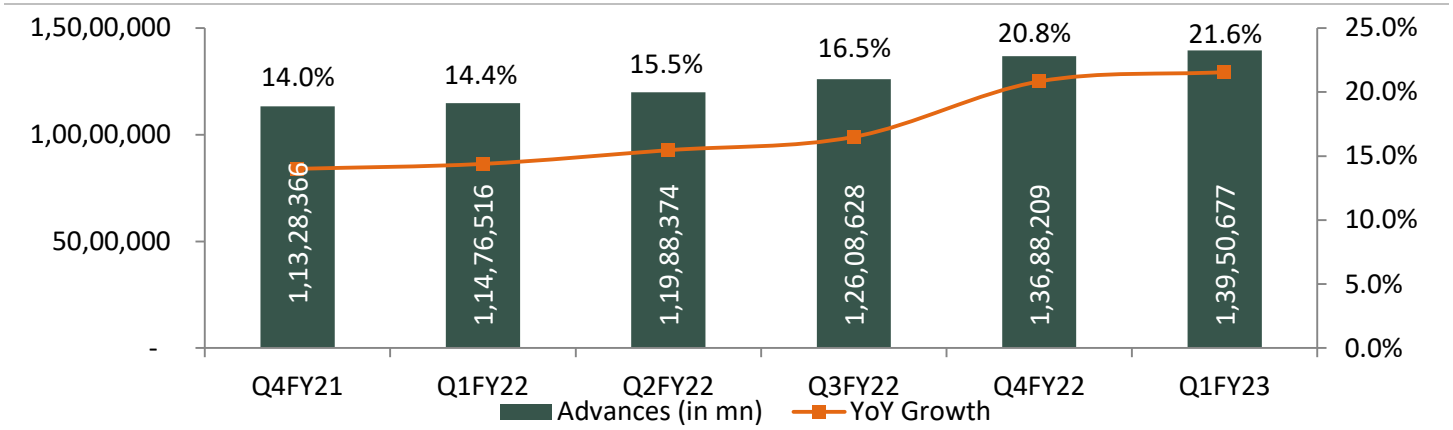
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



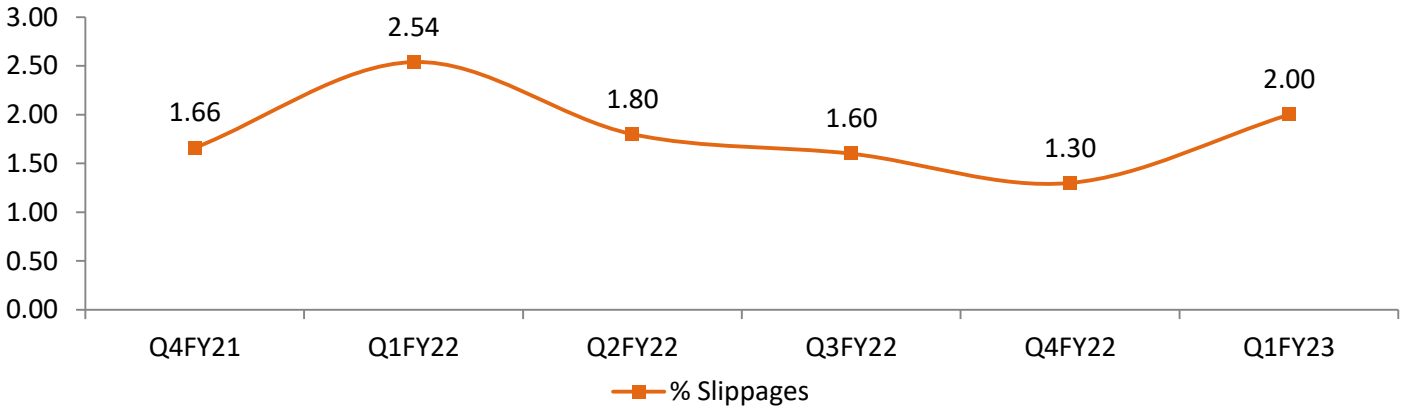
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth has continued to remain strong



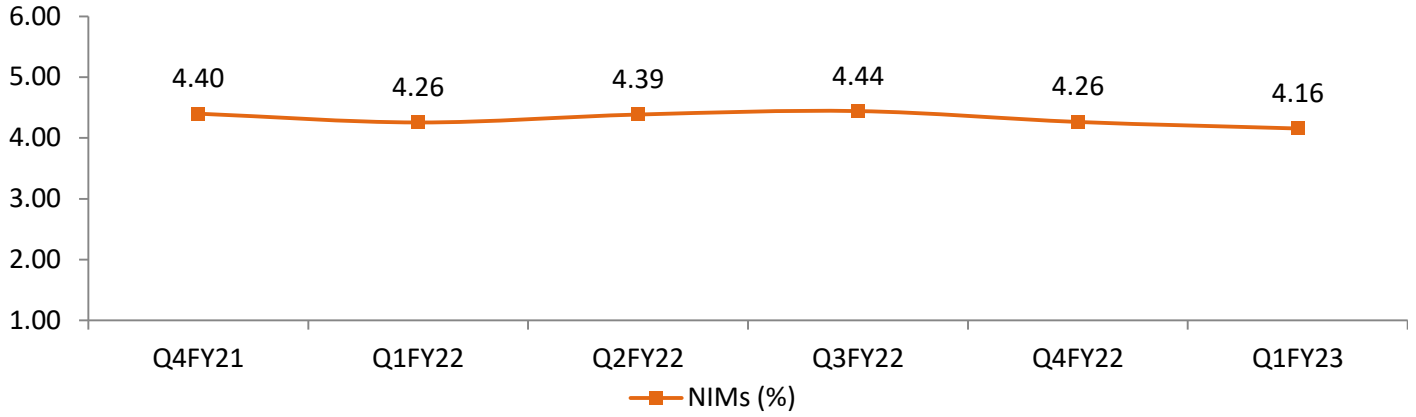
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio increased sequentially



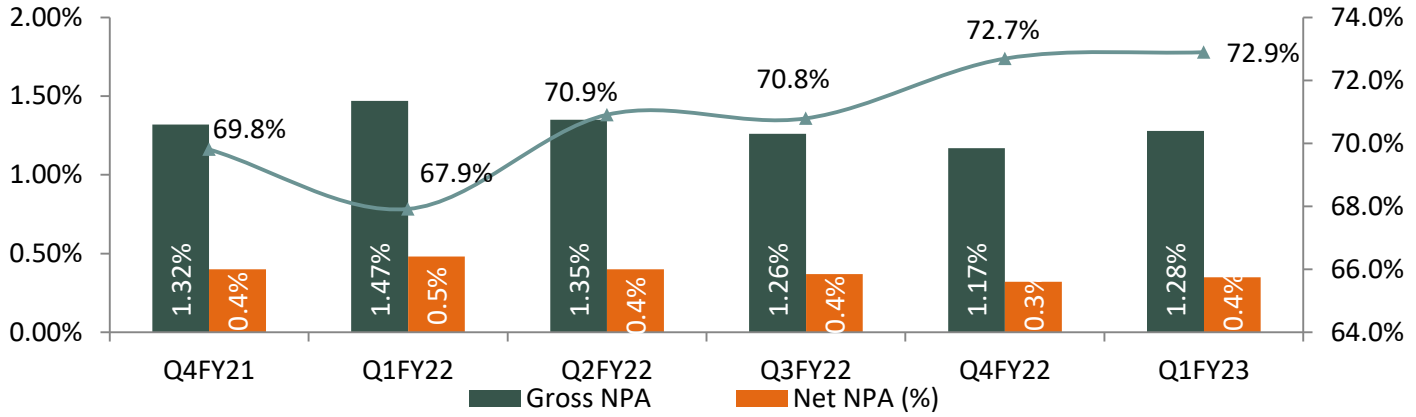
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins continued to decline sequentially



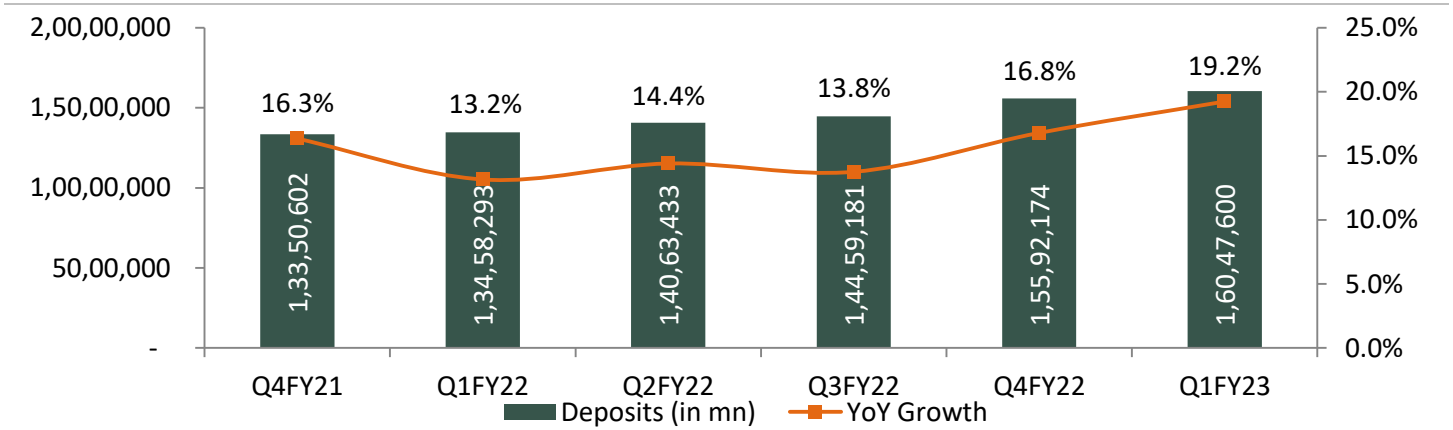
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality witnessed downtick during the quarter



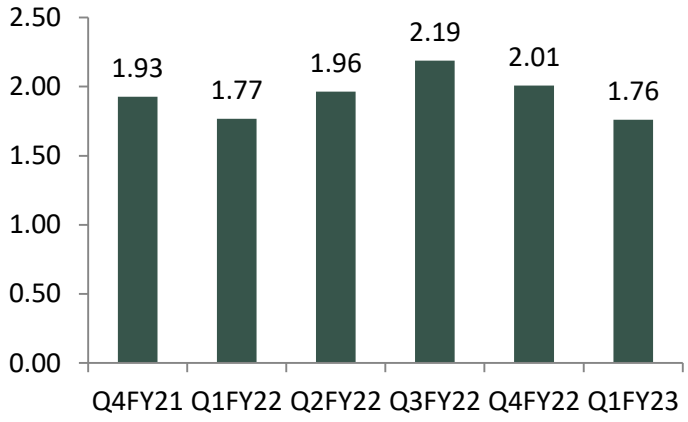
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth pace continued to improve sequentially



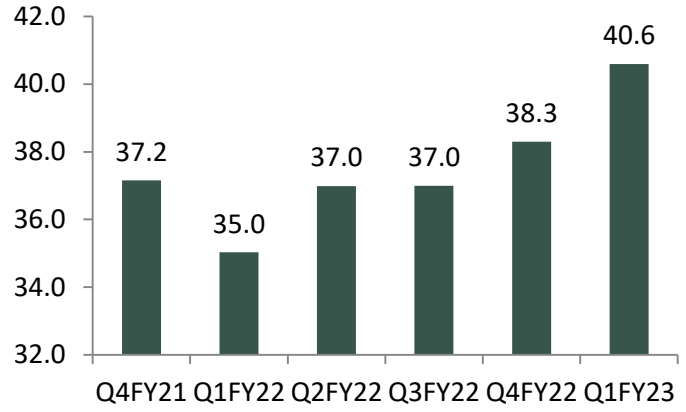
Source: Company; IDBI Capital Research

Exhibit 9: RoA remained stable on YoY basis



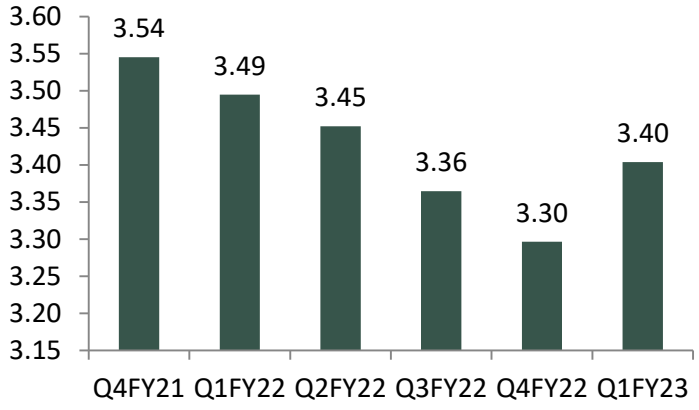
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio inched up



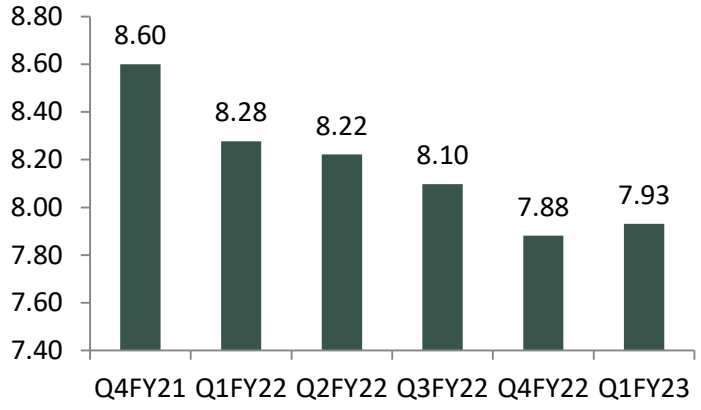
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Funds shows increased QoQ



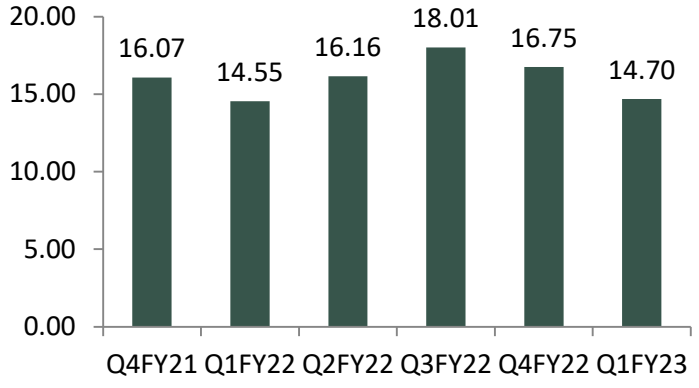
Source: Company; IDBI Capital Research

Exhibit 12: Yield on Advance improved sequentially



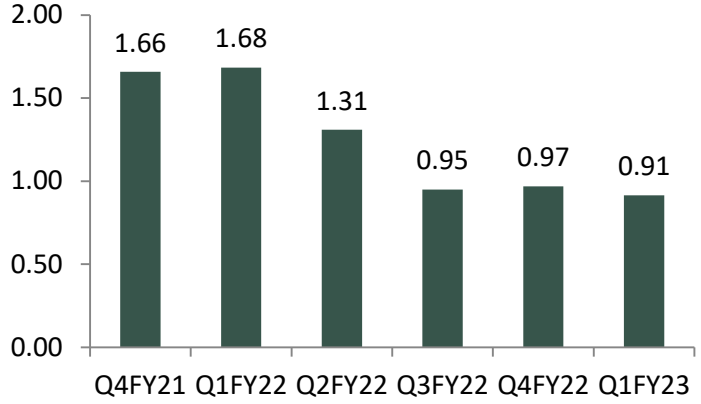
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity continued to witness down tick



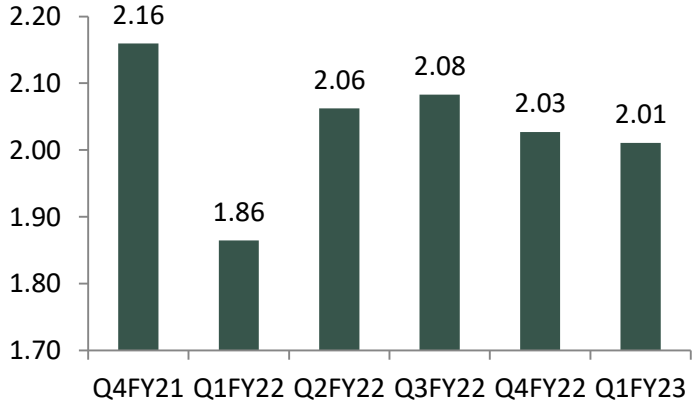
Source: Company; IDBI Capital Research

Exhibit 14: Credit Cost shows improvement (Annualized)



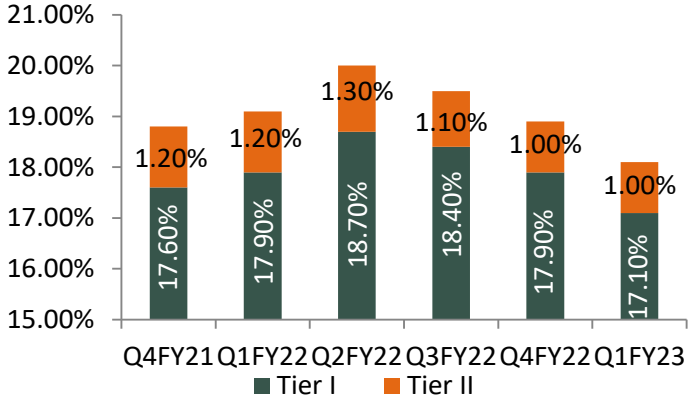
Source: Company; IDBI Capital Research

Exhibit 15: Cost to Assets improved YoY



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**	**7,20,096**	**8,51,904**	**9,87,504**
Change (yoy, %)		*16%*	*15%*	*11%*	*18%*	*16%*
Fees	1,72,325	2,13,006	2,12,894	2,71,566	3,01,141	3,61,369
Other Income	3,933	19,602	39,154	23,533	43,741	47,643
Net Revenue	6,58,689	7,94,470	9,00,844	10,15,195	11,96,786	13,96,517
Operating expenses	2,61,193	3,06,975	3,27,226	3,74,422	4,51,940	5,37,523
Employee expenses	77,618	95,257	1,03,648	1,20,317	1,46,058	1,58,085
Other expenses	1,83,575	2,11,718	2,23,578	2,54,105	3,05,883	3,79,437
Pre-Provision Profit	**3,97,496**	**4,87,495**	**5,73,618**	**6,40,773**	**7,44,846**	**8,58,994**
Change (yoy, %)		*23%*	*18%*	*12%*	*16%*	*15%*
Provision	75,501	1,21,424	1,57,028	1,50,618	1,70,753	2,05,350
PBT	3,21,995	3,66,071	4,16,590	4,90,155	5,74,093	6,53,644
Taxes	1,11,215	1,03,498	1,05,425	1,20,541	1,44,499	1,64,522
Effective tax rate (%)	*35%*	*28%*	*25%*	*25%*	*25%*	*25%*
Net profit	**2,10,780**	**2,62,573**	**3,11,165**	**3,69,614**	**4,29,594**	**4,89,122**
Change (yoy, %)		*25%*	*19%*	*19%*	*16%*	*14%*
EPS	38.7	47.9	56.4	66.7	77.5	88.2
ROE	16.50	16.40	16.61	16.66	16.54	16.19
ROA	1.83	1.89	1.90	1.94	1.93	1.89

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	27,89,054	32,42,252
Networth	**14,92,063**	**17,09,860**	**20,37,209**	**24,00,929**	**27,94,599**	**32,47,797**
Deposits	**92,31,409**	**1,14,75,023**	**1,33,50,602**	**1,55,92,174**	**1,86,03,580**	**2,22,17,268**
Current deposits	14,24,978	17,42,479	21,21,821	23,93,106	31,62,609	37,76,936
Saving deposits	24,87,004	31,03,771	40,35,001	51,17,385	55,81,074	66,65,180
Term deposit	53,19,428	66,28,773	71,93,780	80,81,683	98,59,898	1,17,75,152
Borrowings	11,70,852	14,46,286	13,54,873	18,48,172	16,75,778	16,21,558
Other liabilities	5,51,083	6,73,944	7,26,021	8,44,075	8,29,409	6,50,900
Total Liab. & Equity	**1,24,45,406**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,39,03,366**	**2,77,37,523**
Cash	8,13,476	8,66,187	11,94,705	15,23,269	13,02,251	14,92,553
Advances	81,94,012	99,37,029	1,13,28,366	1,36,88,209	1,64,25,851	1,97,11,021
Investments	29,05,879	39,18,267	44,37,282	45,55,357	51,64,898	54,22,546
Fixed Assets	40,300	44,319	49,093	60,837	66,920	73,612
Other Assets	4,91,739	5,39,311	4,59,259	8,57,678	9,43,446	10,37,791
Total assets	**1,24,45,406**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,39,03,366**	**2,77,37,523**

Financial Ratios

(%)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth						
Deposits	17.0	24.3	16.3	16.8	19.3	19.4
Advances	24.5	21.3	14.0	20.8	20.0	20.0
NII	20.3	16.5	15.5	11.0	18.3	15.9
Pre-Provision Profit	21.8	22.6	17.7	11.7	16.2	15.3
Net Profit	20.5	24.6	18.5	18.8	16.2	13.9
Spreads						
Yield on Assets	9.3	9.0	7.9	7.2	7.5	7.6
Cost of Funds	5.2	5.0	4.1	3.5	3.7	3.7
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	37.8	38.5
Cost-to-Assets	2.3	2.2	2.0	2.0	2.0	2.1
Asset Quality						
GNPA	1.7	1.6	1.5	1.2	1.9	2.1
NNPA	0.4	0.4	0.4	0.3	0.3	0.3
Provision Coverage	77.8	78.2	72.7	72.7	84.5	88.1
Credit Cost	0.9	1.0	1.1	0.8	1.1	1.1
Capital Adequacy						
CAR	17.1	18.5	18.8	18.9	17.9	17.1
Tier I	15.8	17.2	17.6	17.9	16.6	16.0
Valuation						
EPS	38.7	47.9	56.4	66.7	77.5	88.2
ABV	270.7	308.0	363.9	427.6	497.6	579.3
P/E	35.2	28.5	24.2	20.5	17.6	15.5
P/BV	5.0	4.4	3.7	3.2	2.7	2.3
ROE	16.5	16.4	16.6	16.7	16.5	16.2
ROA	1.8	1.9	1.9	1.9	1.9	1.9
RORWA	2.4	2.7	2.9	3.0	2.6	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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