

Treasury loss drags PAT; outlook remains healthy

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 13.9 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q1FY23 Results: Treasury loss impact PAT, slippages elevated; mixed operations.

- Loans were up 21.6% YoY at ₹ 13.9 lakh crore; deposits up 19.2% YoY
- NII up 14.5% YoY, NIM stable QoQ at 4.0%, C/I at 40.6% vs 38.3% QoQ
- Credit cost at 0.91%, PAT up 19% YoY at ₹ 9196 crore
- GNPA up 11 bps QoQ to 1.28%, restructured book at 89 bps

What should investors do? HDFC Bank's share price has grown over 60% in the past five years. Building of digital & physical capabilities to support continued healthy business growth, though clarity related to merger remain near term overhang.

- We remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value HDFC Bank at ~3x FY24E ABV & ₹ 50 for subsidiaries; thus, we maintain our TP at ₹ 1650 per share

Key triggers for future price performance:

- Transmission of rate hike and improving mix towards CRB & retail segment to aid margin trajectory
- Building up of physical/digital infra, branch addition to keep opex elevated followed by benefit of higher business traction
- Recent RBI approval is an NOC on merger. Clarity on regulatory forbearance to remain in focus and keep the stock price volatile

Alternate Stock Idea: Apart from HDFC Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 970



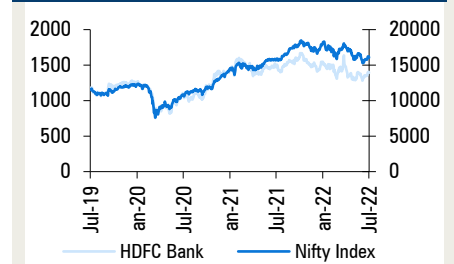
Particulars

Particulars	Amount
Market Capitalisation	₹ 757659 crore
52 week H/L	1724/1271
Networth	₹ 250284 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	25.8	25.8	25.8	25.7
FII	38.2	37.5	35.6	32.3
DII	22.5	23.0	24.6	27.1
Others	13.4	13.8	14.1	14.9

Price Chart



Recent Event & Key risks

- Total provisions at 182% of reported GNPA level
- **Key Risk:** 1) Higher opex could impact RoA 2) Approval with unfavourable condition related to merger

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	48,243	56,186	64,880	72,010	14%	82,839	98,937	17%
PPP	39,750	48,750	57,362	64,077	17%	72,220	86,187	16%
PAT	21,078	26,257	31,117	36,961	21%	42,780	51,939	19%
ABV (₹)	268.0	305.4	361.3	425.0		484.4	534.0	
P/E	35.2	28.4	24.1	20.4		17.7	14.5	
P/ABV	5.1	4.5	3.8	3.2		2.8	2.6	
RoA	1.8	1.9	1.9	1.9		1.9	2.0	
RoE	16.5	16.4	16.6	16.7		16.6	17.9	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Business momentum healthy

- HDFC Bank posted a mixed set of numbers as business growth continued its healthy traction but asset quality performance was modest. GNPA and NNPA ratio increased from 1.17% and 0.32% to 1.28% and 0.35%, respectively, on a sequential basis. Retail book saw stable asset quality but CRB and corporate loans witnessed 20 bps and 11 bps QoQ rise in GNPA levels, respectively
- NII was up 14.5% YoY and 3.2% QoQ to ₹ 19481 crore aided by healthy loan growth of 21.6% YoY and stable NIMs at 4.0% on a sequential basis. Other income declined 16.4% QoQ and showed modest 1.6% growth on yearly basis mainly on account of treasury loss of ₹ 1312 crore vs. a gain of ₹ 601 YoY. Fee income reported strong growth of 38% YoY
- Opex was up 3.4% QoQ as business momentum continued but C/I ratio increased from 38.3% to 40.6% QoQ mainly due to impact of treasury loss on the topline. Credit cost marginally declined 3.8% and total credit cost for the quarter was at 0.91% vs. 1.67% YoY and 0.94% QoQ. PAT came in at ₹ 9196 crore, up 19% YoY and slightly below our estimate due to higher treasury loss
- Loan growth for the quarter continued healthy momentum as advances were up 21.6% YoY and 1.9% QoQ to ₹ 13.9 lakh crore. Retail loans saw 21.7% YoY jump while commercial and rural segment saw healthy uptick of 28.9% YoY while corporate portfolio was up by 15.7% YoY
- Deposit accretion was at 19.2% YoY to ₹ 16.0 lakh crore. CASA deposits reported growth of 20.1% YoY but were down 2.2% sequentially and as a result CASA ratio declined QoQ from 48.1% to 45.7%

Q1FY23 Earnings Conference Call highlights

- The bank added 36 branches during the quarter and 250 more would be added. Gold loans now processed at over 2000 branches
- New liability acquisition healthy with 2.6 million new relationships. Issued 1.2 million new cards
- About 18 bps of the 1.28% GNPA are standard. Thus, core GNPA is at 1.1%, GNPA excluding agri and one-off was at 1.03%
- Slippages at 50 bps, i.e. at ₹ 7200 crore, ex-agri and one-off was 38 bps, reco & upgrade at ₹ 3000 crore, write-off at ₹ 2400 crore, no sale to ARC
- Target to double CRB book in next three years through geographic expansion and engaging in relationship with prospective customers
- Resetting of rates takes three to six months for majority of loans. Of loans, ~45% is fixed and 55% is floating (~27-28% is repo linked, 13-14% linked to TBills)
- Modified duration of AFS portfolio at two years. Not utilised investment fluctuation reserve in Q1FY23 that is tad higher than regulatory requirement (2%)
- Total ~75% of PSL requirement accomplished organically
- CI ratio to remain higher led by branch & employee addition. Medium term target continue to remain at mid 30s. Total tech spends at ~8-9% of total opex

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	663	970	Buy	2034	21.5	42.4	39.7	55.9	30.8	15.6	16.7	11.9	2.1	1.9	1.7	1.7	7.1	12.0	10.1	13.5
Federal Bank (FEDBAN)	99	110	Hold	207	8.0	9.0	10.8	12.4	12.4	11.0	9.2	8.0	1.4	1.2	1.1	1.0	10.4	10.8	11.5	12.0
HDFC Bank (HDFBAN)	1,364	1,650	Buy	7,576	56.4	66.7	77.4	92.8	24.2	20.5	17.6	14.7	3.8	3.2	2.8	2.6	16.6	16.7	16.7	17.8
IndusInd Bank (INDBA)	816	1,150	Buy	632	36.7	59.5	82.4	101.0	22.2	13.7	9.9	8.1	1.5	1.4	1.3	1.2	7.3	10.1	13.1	15.1
Kotak Bank (KOTMAH)	1,785	2,150	Buy	3,543	35.1	43.0	49.6	57.8	50.8	41.5	36.0	30.9	5.8	5.1	4.4	3.9	12.4	12.6	12.9	13.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	19,481.4	19,203.1	17,009.0	14.5	18,872.7	3.2	Driven by strong loan growth and stable NIMs
NIM (%)	4.0	4.0	4.1	-2.4	4.0	0.0	
Other Income	6,388.2	7,268.2	6,288.5	1.6	7,637.1	-16.4	Treasury loss impacted non-interest income
Net Total Income	25,869.7	26,471.3	23,297.5	11.0	26,509.8	-2.4	
Staff cost	3,500.2	3,180.4	2,765.6	26.6	3,144.6	11.3	
Other Operating Expenses	7,001.6	7,121.2	5,394.9	29.8	7,008.2	-0.1	C/I ratio inched up as Opex growth was higher than top line on QoQ basis
PPP	15,367.8	16,169.7	15,137.0	1.5	16,357.0	-6.0	
Provision	3,187.7	3,208.5	4,830.8	-34.0	3,312.4	-3.8	Credit cost at 0.91% versus 0.95% QoQ
PBT	12,180.1	12,961.2	10,306.2	18.2	13,044.7	-6.6	
Tax	2,984.1	3,240.3	2,576.6	15.8	2,989.5	-0.2	
PAT	9,196.0	9,720.9	7,729.6	19.0	10,055.2	-8.5	Slightly below estimates due to lower other income

Key Metrics

GNPA	18,034	15,389	17,099	5.5	16,141	11.7	Agri and one-off slippage led to increased NPA levels
NNPA	4,888	4,114	5,486	-10.9	4,408	10.9	
Advances	13,95,068	13,95,000	11,47,652	21.6	13,68,821	1.9	Growth driven by CRB and retail segment
Deposits	16,04,760	16,05,000	13,45,829	19.2	15,59,217	2.9	CASA up 20% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	84,295.0	82,839.2	-1.7	98763.3	98,936.7	0.2
Pre Provision Profit	74,046.0	72,219.9	-2.5	85295.1	86,187.4	1.0
NIM calculated (%)	4.0	3.9	-10 bps	4.1	4.0	-9 bps
PAT	43,149.1	42,779.9	-0.9	51173.0	51,938.8	1.5
ABV (₹)	478.7	484.4	1.2	526.5	534.0	1.4

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY24E	FY22E
Credit growth (%)	19.4	17.7	17.5	17.7
Deposit Growth (%)	21.2	16.5	16.4	17.5
CASA ratio (%)	50.9	50.0	47.2	46.0
NIM Calculated (%)	3.9	4.0	4.1	4.1
Cost to income ratio (%)	37.8	36.9	36.4	35.9
GNPA (₹ crore)	17,775	19,698	17,955	21,602
NNPA (₹ crore)	6,613	8,178	7,275	9,311
Slippage ratio (%)	1.3	1.2	1.3	1.2
Credit cost (%)	0.8	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Interest Earned	120858	127753	153744	184864
Interest Expended	55979	55744	70905	85927
NII	64880	72010	82839	98937
Growth (%)	15.5	11.0	15.0	19.4
Non Interest Income	25205	29510	33330	37683
Total Income	90084	101519	116170	136620
Employee cost	10365	12032	14676	17089
Other operating Exp.	22358	25410	29274	33343
PPP	57362	64077	72220	86187
Provisions	15703	15062	14797	16471
PBT	41659	49015	57423	69717
Taxes	10542	12054	14643	17778
Net Profit	31117	36961	42780	51939
Growth (%)	18.5	18.8	15.7	21.4

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Valuation				
No. of Equity Shares	551.3	554.6	554.6	554.6
EPS (₹)	56.4	66.7	77.1	93.7
BV (₹)	369.5	433.0	496.3	548.8
ABV (₹)	361.3	425.0	484.4	534.0
P/E	24.1	20.4	17.7	14.5
P/BV	3.7	3.1	2.7	2.5
P/ABV	3.8	3.2	2.8	2.6
Yields & Margins (%)				
Net Interest Margins	4.1	4.0	3.9	4.0
Yield on avg earning assets	7.7	7.0	7.2	7.5
Avg. cost on funds	4.1	3.5	3.7	3.8
Avg. cost of deposits	4.0	3.4	3.7	3.8
Yield on average advances	8.9	7.9	8.3	8.6
Quality and Efficiency (%)				
Cost / Total net income	36.3	36.9	37.8	36.9
Credit/Deposit ratio	84.9	87.8	86.5	87.4
GNPA	1.3	1.2	1.1	1.0
NNPA	0.4	0.3	0.4	0.4
ROE	16.6	16.7	16.6	17.9
ROA	1.9	1.9	1.9	2.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Sources of Funds				
Capital	551	555	555	555
Reserves and Surplus	203170	239538	274693	303779
Networth	203721	240093	275248	304334
Deposits	1335060	1559217	1889288	2201603
Borrowings	135487	184817	198371	213291
Other Liabilities & Provisions	72602	84407	91276	99083
Total	1746871	2068535	2454183	2818311
Applications of Funds				
Fixed Assets	4909	6084	6760	7261
Investments	443728	455539	503661	576213
Advances	1132837	1368821	1633917	1923281
Other Assets	45926	85765	150583	144044
Cash with RBI & call money	119470	152327	159263	167513
Total	1746871	2068535	2454183	2818311

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)				
(Year-end March)	FY21	FY22	FY23E	FY24E
Total assets	14.1	18.4	18.6	14.8
Advances	14.0	20.8	19.4	17.7
Deposits	16.3	16.8	21.2	16.5
Total Income	5.8	7.7	19.0	19.0
Net interest income	15.5	11.0	15.0	19.4
Operating expenses	6.6	14.4	17.4	14.7
Operating profit	17.7	11.7	12.7	19.3
Net profit	18.5	18.8	15.7	21.4
Net worth	19.1	17.9	14.6	10.6
EPS	17.9	18.1	15.7	21.4

Source: Company, ICICI Direct Research

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