

Growth momentum continues to remain strong...

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 ₹ 14.8 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q2FY23 Results: Strong business growth; improvement in asset quality.

- Strong loan growth at 23.4% YoY to ₹ 14.8 lakh crore; deposits up 19.0%
- NII up 18.9% YoY, NIMs up QoQ at 4.1%, C/I at 39.2% vs. 40.6% QoQ
- Credit cost at 0.87%, PAT up 20.1% YoY at ₹ 10605 crore
- GNPA down 5 bps to 1.23% and NNPA down 2 bps to 0.33% QoQ

What should investors do? HDFC Bank's share price has grown more than 50% in the past five years. Building of distribution capabilities and business growth to remain buoyant though clarity related to merger still remains near term overhang.

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

Target Price and Valuation: HDFC Bank is expected to deliver higher than industry growth along with RoA of ~2% in FY24E. Thus, we value HDFC Bank at ~3.1x FY24E ABV & ₹ 50 for subsidiaries and revise our target price from ₹ 1650 to ₹ 1750/share.

Key triggers for future price performance:

- Continued focus on towards CRB & retail and further rate transmission to aid margins
- Deposits accretion will be supported by branch expansion and relationship building, though it will keep opex elevated in the near term
- Steady asset quality, adequate provision with contingent provision positive. No substantial impact of regularisation of moratorium book

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



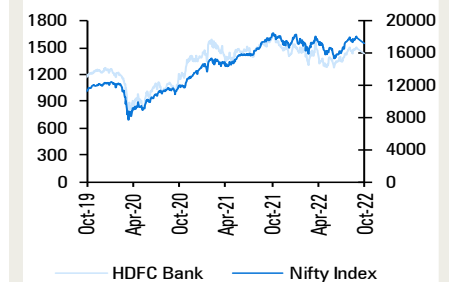
Particulars

Particulars	Amount
Market Capitalisation	₹ 802686 crore
52 week H/L	1724/1271
Networth	₹ 233613 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 171% of reported GNPA level
- **Key Risk:** 1) Increasing competition on liabilities may limit NIM expansion, 2) Uncertainties 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%	83,953	99,855	18%
PPP	39,750	48,750	57,362	64,077	17%	72,213	86,138	16%
PAT	21,078	26,257	31,117	36,961	21%	42,667	52,156	19%
ABV (₹)	268.0	305.4	361.3	425.0		483.0	555.4	
P/E	37.2	30.1	25.5	20.4		18.7	15.3	
P/ABV	5.4	4.7	4.0	3.2		3.0	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	17.7	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Business & earnings trajectory remains strong

- HDFC Bank posted a healthy set of numbers as business growth continued its healthy traction. Asset quality also showed improvement both QoQ and YoY. GNPA and NNPA ratio were at 1.23% vs. 1.28% and 0.33% vs. 0.35%, respectively on a sequential basis
- Net interest income (NII) was up 18.9% YoY and 7.9% QoQ to ₹ 21021 crore, aided by healthy loan growth of 23.4% YoY and 10 bps improvement in NIMs at 4.1% on a sequential basis. Other income increased 18.9% QoQ and 2.6% YoY driven by fee and commission income, which was up 8.3% QoQ and 17.0% YoY at ₹ 5802 crore
- Opex was up 21% YoY and 6.9% QoQ as business momentum continued, whereas, C/I ratio moderated marginally from 40.6% to 39.2% QoQ. Provisions increased marginally by 1.6% QoQ and declined 17.4% YoY, resulting in credit cost of 0.87% vs. 0.91% in Q1FY23. Net profit for the quarter came in at ₹ 10605 crore, up 20% YoY largely in line with our estimates
- Loan growth for the quarter remained robust as advances were up 23.4% YoY and 6.1% QoQ to ₹ 14.8 lakh crore. Retail loans saw 20.2% YoY jump while commercial and rural segment saw healthy uptick of 31.3% YoY. Corporate portfolio was up 27% YoY. Deposit accretion was at 19.0% YoY to ₹ 16.7 lakh crore. CASA deposits reported growth of 15.4% YoY and 3.4% sequentially. CASA ratio was flat QoQ at 45.4%
- The bank's subsidiary HDB Financial services saw a slight improvement in asset quality as stage-3 assets were down from 4.95% to 4.88% QoQ. Net profit for HDB came in at ₹ 471 crore vs. ₹ 191 crore YoY. Broking business HDFC Securities saw 4.4% YoY decline in total income at ₹ 468 crore while net profit was down 20% YoY to ₹ 190 crore

Q2FY23 Earnings Conference Call highlights

- Change in retail/wholesale mix will aid margins trajectory
- Deposit and funding strategy will be branch led and relationship based. Over 50% of branches are migrating from one vintage bucket to another vintage bucket. It added 121 branches during the quarter while ~500 more branches are in the pipeline to be opened in the coming months
- Total ~2.9 mn new liability relationship added, 11% growth QoQ. Also, 1.2 mn new cards acquired with card base now at 16.3 mn. Closed 2.4 mn inactive cards
- In Q2FY23, ~261 mn business received from website averaging about ~30 mn unique customers per month
- Slippage was at ₹ 5700 crore (36 bps), recoveries & upgrades were ₹ 2500 crore (~19 bps) while write-offs were ₹ 3000 crore (22 bps). Restructuring for Covid-19 was at 53 bps as of September 2022
- NCLT has given approval for holding a shareholders' meeting for obtaining approval for the proposed merger of HDFC Ltd with HDFC Bank. The shareholder meeting will be convened on November 25, 2022. Parent HDFC Ltd has also received approval from Sebi for transfer of HDFC Property Ventures Ltd (HPVL) to HDFC Bank
- It added ~9000 employees in Q2FY23. More hiring will be there in the coming quarters. There are about 45000 sales employees in the total employee base
- HDB Financial services – Momentum in disbursement continued with strong growth of 29% YoY. Loan book was at ₹ 63000 crore out of which secured loan book is 75%. Stage 3 assets were at 4.9% with 1.1% impact of new RBI guidelines. PCR - 46% on secured book and 92% on unsecured book. RoA 3% and RoE 18%
- HDFC Securities – Client base is at 4.14 mn with 36% YoY increase. Over 91% of retail trades are via digital mode

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)	800	970	Buy	2,458	21.5	42.4	53.2	65.4	37	18.9	15.0	12.2	2.6	2.3	2.0	1.9	7.1	12.0	13.3	15.1
Federal Bank (FEDBAN)	130	152	Buy	274	8.0	9.0	12.0	14.6	16	14.5	10.8	8.9	1.8	1.6	1.4	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,441	1,750	Buy	8,026	56.4	66.7	76.9	94.1	26	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,181	1,330	Buy	915	36.7	59.5	91.7	117.1	32	19.8	12.9	10.1	2.2	2.0	1.8	1.5	7.3	10.1	14.0	15.7
Kotak Bank (KOTMAH)	1,834	2,200	Buy	3,642	35.1	43.0	50.7	58.8	52.2	42.6	36.1	31.2	6.0	5.1	4.5	3.9	12.4	12.6	13.0	13.2

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	21,021.2	20,565.9	17,684.4	18.9	19,481.4	7.9	Driven by strong loan growth and uptick in NIMs
NIM (%)	4.1	4.0	4.1	0.0	4.0	2.5	
Other Income	7,595.6	7,599.4	7,400.8	2.6	6,388.2	18.9	Mainly led by growth in fee income
Net Total Income	28,616.7	28,165.3	25,085.2	14.1	25,869.7	10.6	
Staff cost	3,523.8	3,412.1	2,967.1	18.8	3,500.2	0.7	
Other Operating Expenses	7,700.7	7,573.0	6,310.8	22.0	7,001.6	10.0	C/I ratio moderated marginal QoQ basis
PPP	17,392.2	17,180.2	15,807.3	10.0	15,367.8	13.2	
Provision	3,240.1	3,256.0	3,924.7	-17.4	3,187.7	1.6	Credit cost at 0.87% vs 0.91% QoQ
PBT	14,152.0	13,924.2	11,882.6	19.1	12,180.1	16.2	
Tax	3,546.3	3,481.1	3,048.3	16.3	2,984.1	18.8	
PAT	10,605.8	10,443.2	8,834.3	20.1	9,196.0	15.3	In line with estimates led by strong business growth

Key Metrics

GNPA	18,301	18,214	16,346	12.0	18,034	1.5	
NNPA	4,883	4,937	4,755	2.7	4,888	-0.1	
Advances	14,79,873	14,80,000	11,98,837	23.4	13,95,068	6.1	Growth driven by MSME and corporate segment
Deposits	16,73,408	16,73,500	14,06,343	19.0	16,04,760	4.3	CASA up 15% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	82,839.2	83,953.5	1.3	98,763.3	99,854.8	1.1
Pre Provision Profit	72,219.9	72,213.2	0.0	85,295.1	86,138.1	1.0
NIM calculated (%)	3.9	4.0	6 bps	4.1	4.0	-6 bps
PAT	42,779.9	42,667.4	-0.3	51,173.0	52,155.9	1.9
ABV (₹)	484.4	483.0	-0.3	526.5	555.4	5.5

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY24E	FY22E
Credit growth (%)	18.6	19.2	19.4	17.7
Deposit Growth (%)	17.0	17.7	21.2	16.5
CASA ratio (%)	50.2	49.7	50.9	50.0
NIM Calculated (%)	4.0	4.0	3.9	4.0
Cost to income ratio (%)	37.8	36.9	37.8	36.9
GNPA (₹ crore)	17,764	19,699	17,775	19,698
NNPA (₹ crore)	6,344	8,401	6,613	8,178
Slippage ratio (%)	1.3	1.2	1.3	1.2
Credit cost (%)	0.9	0.8	0.8	0.8

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	155290	184501	
Interest Expended	55979	55744	71336	84646	
NII	64880	72010	83953	99855	
Growth (%)	15.5	11.0	16.6	18.9	
Non Interest Income	25205	29510	32210	36716	
Total Income	90084	101519	116163	136570	
Employee cost	10365	12032	14676	17089	
Other operating Exp.	22358	25410	29274	33343	
PPP	57362	64077	72213	86138	
Provisions	15703	15062	14942	16130	
PBT	41659	49015	57272	70008	
Taxes	10542	12054	14604	17852	
Net Profit	31117	36961	42667	52156	
Growth (%)	18.5	18.8	15.4	22.2	

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	76.9	94.1	
BV (₹)	369.5	433.0	494.5	570.5	
ABV (₹)	361.3	425.0	483.0	555.4	
P/E	25.5	20.4	18.7	15.3	
P/BV	3.9	3.1	2.9	2.5	
P/ABV	4.0	3.2	3.0	2.6	
Yields & Margins (%)					
Net Interest Margins	4.1	4.0	4.0	4.0	
Yield on avg earning assets	7.7	7.0	7.3	7.5	
Avg. cost on funds	4.1	3.5	3.8	3.9	
Avg. cost of deposits	4.0	3.4	3.8	3.9	
Yield on average advances	8.9	7.9	8.4	8.5	
Quality and Efficiency (%)					
Cost / Total net income	36.3	36.9	37.8	36.9	
Credit/Deposit ratio	84.9	87.8	89.0	90.1	
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	17.7	
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	273659	315833	
Networth	203721	240093	274214	316388	
Deposits	1335060	1559217	1823527	2146981	
Borrowings	135487	184817	198371	213291	
Other Liabilities & Provisions	72602	84407	91276	99083	
Total	1746871	2068535	2387388	2775743	
Applications of Funds					
Fixed Assets	4909	6084	6760	7261	
Investments	443728	455539	503661	576213	
Advances	1132837	1368821	1623401	1934520	
Other Assets	45926	85765	94304	90237	
Cash with RBI & call money	119470	152327	159263	167513	
Total	1746871	2068535	2387388	2775743	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratio (%)					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total assets	14.1	18.4	15.4	16.3	
Advances	14.0	20.8	18.6	19.2	
Deposits	16.3	16.8	17.0	17.7	
Total Income	5.8	7.7	19.2	18.0	
Net interest income	15.5	11.0	16.6	18.9	
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	15.4	22.2	
Net worth	19.1	17.9	14.2	15.4	
EPS	17.9	18.1	15.4	22.2	

Source: Company, ICICI Direct Research

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