

In line Q4; investment in infrastructure to drive growth

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 ₹ 16 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

Q4FY23 Results: In line operational performance; lower credit cost aided PAT.

- Healthy loan growth at 16.9% YoY to ₹ 16 lakh crore; deposits up 20.8%
- NII up 23.7% YoY, NIMs steady at 4.1%, C/I up at 42% led by elevated opex
- Credit cost declined to 0.67%, PAT up 19.8% YoY at ₹ 12047 crore
- GNPA & NNPA improved to 1.12% and 0.27% QoQ, respectively

What should investors do? HDFC Bank's share price has grown by ~2x in the past three years. Focus on building distribution capabilities (branch, human resource and technology) is expected to help withstand competition and drive future business growth though merger with HDFC Ltd to remain in the highlight in the near term.

- 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 with RoA of ~2% in FY25E. We value HDFC Bank at ~2.9x FY25E ABV & ₹ 50 for subsidiaries and revise target price from ₹ 1920 to ₹ 1970/share.

Key triggers for future price performance:

- Repricing of liabilities to get partially offset by new fixed rate book at higher rates leading to marginal pressure on NIMs in the near term. Structural change in asset mix to keep margins in the stated band of 3.9-4.4%
- Focus on strengthening distribution infrastructure to keep opex elevated, accrual of benefit over medium term to result in reduction of CI ratio
- Focus on liabilities accretion (through branch expansion, customer additions & relationship building with existing customer), steady asset quality and healthy provision buffer to aid growth and RoA

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 ₹ 1100



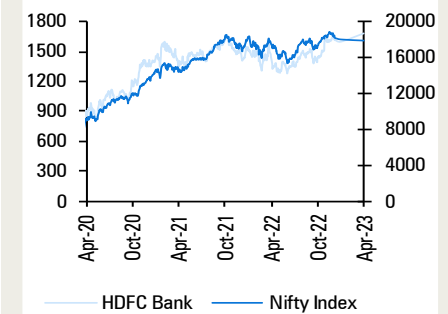
Particulars

Particulars	Amount
Market Capitalisation	₹ 944817 cron
52 week H/L	1702/127
Networth	₹ 273063 cron
Face value	₹

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	25.8	25.8	25.7	25.6	25.6
FII	37.5	35.6	32.3	32.1	32.2
DII	23.0	24.6	27.1	27.5	28.1
Others	13.8	14.1	14.9	14.7	14.1

Price Chart



Recent event & key risks

- Total provisions at 176% of reported GNPA level; credit cost at 0.67%
- **Key Risk:** 1) Moderation in pace of deposits accretion, 2) Anticipated elevated opex in near term

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Key Financial Summary

₹ Crore	FY21	FY22	FY23	3 year CAGR	FY24E	FY25E	2 year CAGR (FY23-25E)
NII	64,880	72,010	86,842	16%	99,420	1,15,407	15%
PPP	57,362	64,077	70,405	13%	84,055	97,987	18%
PAT	31,117	36,961	44,109	19%	52,076	60,425	17%
ABV (₹)	361.3	425.0	494.3		560.5	659.4	
P/E	30.0	20.4	21.4		18.1	15.6	
P/ABV	4.7	3.2	3.4		3.0	2.6	
RoA	1.9	1.9	1.9		2.0	2.0	
RoE	16.6	16.7	17.0		17.3	17.1	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: In line performance

- HDFC Bank reported in line numbers. The operational performance was led by strong NII and business growth with improvement in asset quality
- Net interest income (NII) was up 23.7% YoY (1.6% QoQ) to ₹ 23351 crore (in line with our estimate), aided by healthy loan growth of ~17% YoY and steady NIMs at 4.1% on a sequential basis. Other income increased 14.3% YoY, 2.7% QoQ, mainly driven by fee & commission income, which was up 18% YoY (9.5% QoQ)
- Opex was up 32.6% YoY and 8% QoQ whereas C/I ratio was steady at ~42% (vs. 38.3% in Q4FY22). Provisions declined both QoQ and YoY at ₹ 2685.4 crore, resulting in credit cost of 0.67% vs. 0.74% in Q3FY23. Net profit for the quarter came in at ₹ 12047 crore, up 19.8% YoY (de-grew 1.7% QoQ)
- Loan growth for the quarter remained healthy at 16.9% YoY and 6.2% QoQ to ₹ 16 lakh crore though a bit of moderation was witnessed compared to previous quarterly growth trend. Retail loans saw 19.3% YoY (4.6% QoQ) increase while commercial and rural segment saw healthy uptick of ~30% YoY (9% QoQ). Corporate and wholesale book was up 12.6% YoY (5% QoQ). Deposit accretion was at 20.8% YoY to ₹ 18.8 lakh crore. CASA deposits reported growth of 11.3% YoY. CASA ratio witnessed a marginal uptick QoQ at 44.4% (vs. 44% in Q3FY23)
- The bank's subsidiary HDB Financial Services saw an improvement in asset quality as stage-3 assets were down from 3.73% in Q3FY23 to 2.73%. Net profit for HDB grew ~94% YoY at ₹ 1959 crore (in FY23). Broking business HDFC Securities saw ~5% YoY decline in total revenues at ₹ 486 crore while net profit was down 18% YoY to ₹ 194 crore

Q4FY23 Earnings Conference Call highlights

- Global market volatility, risks from slowdown and geopolitical tensions may impact growth
- Focus will be on granular deposit base continuing. The bank is on track to keep building distribution capabilities. LCR was ~116% during the quarter
- Retail segment growth of 20% YoY was driven by home and personal loans. Growth in wholesale segment was driven by NBFCs, telecom, PSUs and retail sector. Higher share of retail assets to keep credit cost lower and result in steady RoAs
- Esop expenses during the quarter was ₹ 300 crore. Opex was higher mainly on account of branch addition (~638 branches added in Q4FY23)
- Slippage ratio was at 28 bps (₹ 4900 crore). Recoveries and upgrades were ₹ 3300 crore (22 bps), write-offs were ₹ 2400 crore (17 bps). No sale of NPA during the quarter. Total restructured book was at 37 bps (Covid restructured book was 31 bps vs. 50 bps in Q3FY23)
- Provisions during the quarter include contingent provision of ₹ 300 crore (PCR at 76%). Outstanding provisions buffer includes ₹ 9700 crore contingent provisions and floating provision of ₹ 1450 crore
- Overall deposit accretion at ₹ 1.5 lakh crore in Q4FY23. Retail deposit growth higher at 23.5% YoY in Q4FY23 with absolute accretion at ~₹ 1,07,000 crore
- Repricing of liabilities to get partially offset by new fixed rate asset book at higher rates leading to marginal pressure on NIMs in near term. Structural change in asset mix to keep margins in stated band of 3.9-4.4%
- Total 45% book is at fixed rate (that runs for two to three years), MCLR linked loans were 6% of total book with very low volume at shorter end of tenure. Thus, recent reduction in MCLR rates do not seem to have a substantial impact
- The bank added 638 branches during Q4FY23 and 1479 in FY23. The pace of branch expansion will continue in FY24

HDFC Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	40.1	40.1	40.1
Social	27.9	51.6	56.7
Governance	92.4	79.8	92.4
Overall ESG Score	53.5	57.2	63.1

Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure

- Gold loans offered in 4182 branches (3x increase over FY22). Wealth management business offered in 923 branches via hub and spoke model
- With respect to merger, the bank is on track and expects the merger to get completed by June-July 2023

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoA (%)				RoE (%)			
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Axis Bank (AXIBAN)	864	1,100	Buy	2,660	42.4	31.7	78.2	90.5	20.4	27.3	11.0	9.5	2.5	2.3	1.9	1.6	1.2	0.8	1.7	1.7	12.0	8.2	17.9	17.5
Federal Bank (FEDBAN)	128	165	Buy	270	9.0	13.4	15.1	17.7	14.2	9.6	8.5	7.2	1.5	1.4	1.2	1.1	0.9	1.2	1.2	1.2	10.8	14.1	14.3	14.9
HDFC Bank (HDFBAN)	1,684	1,970	Buy	9,448	66.7	79.1	93.3	108.3	25.3	21.3	18.0	15.6	4.0	3.4	3.0	2.6	1.9	1.9	2.0	2.0	16.7	17.0	17.3	17.1
IndusInd Bank (INDBA)	1,108	1,450	Buy	860	59.5	93.1	111.0	129.1	18.6	11.9	10.0	8.6	1.9	1.6	1.4	1.3	1.2	1.7	1.8	1.8	10.1	14.2	14.9	15.2
Kotak Bank (KOTMAH)	1,869	2,175	Buy	3,714	43.0	51.5	56.3	64.3	43.4	36.3	33.2	29.1	5.2	4.6	4.1	3.7	2.1	2.2	2.1	2.1	12.6	13.2	12.6	13.0

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	23,351.8	22,985.9	18,872.7	23.7	22,987.8	1.6	Driven by healthy loan growth and steady NIMs
NIM (%)	4.1	4.0	4.0	2.5	4.1	0.0	
Other Income	8,731.2	8,934.8	7,637.1	14.3	8,499.8	2.7	Primary driven by growth in fee & comission income
Net Total Income	32,083.0	31,920.7	26,509.8	21.0	31,487.7	1.9	
Staff cost	4,362.1	4,245.3	3,144.6	38.7	4,126.2	5.7	
Other Operating Expenses	9,100.1	8,339.7	7,008.2	29.8	8,337.4	9.1	C/l ratio inched up to 42% on sequential basis
PPP	18,620.9	19,335.7	16,357.0	13.8	19,024.1	-2.1	
Provision	2,685.4	3,361.1	3,312.4	-18.9	2,806.4	-4.3	Credit cost further moderated to 0.67%
PBT	15,935.5	15,974.7	13,044.7	22.2	16,217.6	-1.7	
Tax	3,888.1	3,993.7	2,989.5	30.1	3,958.1	-1.8	
PAT	12,047.5	11,981.0	10,055.2	19.8	12,259.5	-1.7	Earnings in-line with estimates led by healthy topline

Key Metrics

GNPA	18,019	19,327	16,141	11.6	18,764	-4.0	Slippages at ~1.2% (annualised)
NNPA	4,368	5,085	4,408	-0.9	5,024	-13.1	
Advances	1,600,586	1,600,500	1,368,821	16.9	1,506,809	6.2	Growth driven by retail and commercial segment
Deposits	1,883,395	1,880,000	1,559,217	20.8	1,733,204	8.7	CASA up 11.3% YoY

Source: Company, ICICI Direct Research

Exhibit 3: Loan book break up

(₹ crore)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Retail loans	5,31,768	5,57,881	5,80,548	6,06,601	6,34,578
Personal	1,40,127	1,47,928	1,54,820	1,64,641	1,71,676
Auto	1,00,463	1,04,003	1,08,788	1,12,442	1,17,429
Home	83,056	88,249	93,050	97,593	1,02,067
Payment products	76,757	80,142	81,966	83,314	86,104
LAP	62,248	65,116	69,313	72,436	76,773
Two Wheeler	9,288	9,195	9,597	9,759	9,933
Gold loans	8,350	8,808	9,434	10,042	10,842
Other retail	51,479	54,440	53,580	56,374	59,754
Commercial Bank & Rural (ex Agri)	4,20,191	4,36,485	4,74,462	5,02,356	5,47,433
Agriculture	64,545	61,579	70,278	70,912	81,719
Corporate and Other wholesale	3,64,011	3,63,939	3,96,779	3,92,254	4,09,712
IBPC/BRDS	-	(11,709)	(28,815)	(51,621)	(59,213)
Total	13,80,515	14,08,175	14,93,252	15,20,502	16,14,229

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	99,539.9	99,419.7	-0.1	1,16,816.2	1,15,407.3	-1.2
Pre Provision Profit	85,823.2	84,055.3	-2.1	1,00,774.3	97,986.6	-2.8
NIM calculated (%)	4.0	4.1	8 bps	4.1	4.1	-2 bps
PAT	51,938.9	52,075.8	0.3	61,507.8	60,424.6	-1.8
ABV (₹)	556.8	560.5	0.7	658.6	659.4	0.1

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

	Current		Earlier	
	FY24E	FY25E	FY24E	FY25E
Credit growth (%)	16.3	16.4	18.7	18.0
Deposit Growth (%)	17.2	16.2	17.7	17.8
CASA ratio (%)	48.6	48.2	49.7	49.1
NIM Calculated (%)	4.1	4.1	4.0	4.1
Cost to income ratio (%)	38.3	37.7	37.0	36.5
GNPA (₹ crore)	19,880.0	24,212.2	19,691.4	24,240.9
NNPA (₹ crore)	9,485	14,758	8,341	13,438
Slippage ratio (%)	1.2	1.3	1.2	1.3
Credit cost (%)	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement		₹ crore		
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	127753	161586	184595	216307
Interest Expended	55744	74743	85175	100900
NII	72010	86842	99420	115407
Growth (%)	11.0	20.6	14.5	16.1
Non Interest Income	29510	31215	36716	41971
Fees and advisory	19537	23444	26960	31005
Treasury Income	736	589	648	713
Other income	9237	7182	9107	10254
Total Income	101519	118057	136135	157379
Employee cost	12032	15512	18932	21839
Other operating Exp.	25410	32140	33148	37553
PPP	64077	70405	84055	97987
Provisions	15062	11920	14155	16880
PBT	49015	58485	69900	81107
Taxes	12054	14377	17825	20682
Net Profit	36961	44109	52076	60425
Growth (%)	18.8	19.3	18.1	16.0
EPS	66.7	79.1	93.3	108.3

Source: Company, ICICI Direct Research

Exhibit 7: Key Ratios					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Valuation					
No. of Equity Shares	554.6	558.0	558.0	558.0	
EPS (₹)	66.7	79.1	93.3	108.3	
BV (₹)	433.0	502.2	577.5	685.8	
ABV (₹)	425.0	494.3	560.5	659.4	
P/E	20.4	21.4	18.1	15.6	
P/BV	3.1	3.4	2.9	2.5	
P/ABV	3.2	3.4	3.0	2.6	
Yields & Margins (%)					
Net Interest Margins	4.0	4.1	4.1	4.1	
Yield on avg earning assets	7.0	7.7	7.6	7.6	
Avg. cost on funds	3.5	4.0	3.8	3.8	
Avg. cost of deposits	3.4	3.8	3.9	3.9	
Yield on average advances	7.9	8.4	8.5	8.6	
Quality and Efficiency (%)					
Cost / Total net income	36.9	40.4	38.3	37.7	
Credit/Deposit ratio	87.8	85.0	84.3	84.4	
GNPA	1.2	1.1	1.1	1.1	
NNPA	0.3	0.3	0.5	0.7	
ROE	16.7	17.0	17.3	17.1	
ROA	1.9	1.9	2.0	2.0	

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet		₹ crore		
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	555	558	558	558
Reserves and Surplus	239538	279641	321673	382098
Networth	240093	280199	322231	382656
Deposits	1559217	1883395	2207240	2565097
Borrowings	184817	206766	222085	247856
Other Liabilities & Provisions	84407	95722	99083	107995
Total	2068535	2466081	2850639	3303605
Applications of Funds				
Fixed Assets	6084	8017	7261	7844
Investments	455539	517001	582370	673872
Advances	1368821	1600586	1860961	2166098
Other Assets	85765	146713	206057	241635
Cash with RBI & call money	152327	193765	193989	214155
Total	2068535	2466081	2850639	3303605

Source: Company, ICICI Direct Research

Exhibit 9: Key ratio (%)					
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total assets	18.4	19.2	15.6	15.9	
Advances	20.8	16.9	16.3	16.4	
Deposits	16.8	20.8	17.2	16.2	
Total Income	7.7	22.6	14.8	16.7	
Net interest income	11.0	20.6	14.5	16.1	
Operating expenses	14.4	27.3	9.3	14.0	
Operating profit	11.7	9.9	19.4	16.6	
Net profit	18.8	19.3	18.1	16.0	
Net worth	17.9	16.7	15.0	18.8	
EPS	18.1	18.6	18.1	16.0	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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