

Banking  
Oct 17, 2022

CMP	1446
Sensex	58,410

#### Stock Statistics

Reuters code	HDBK.BO
Bloomberg code	HDFCB IN

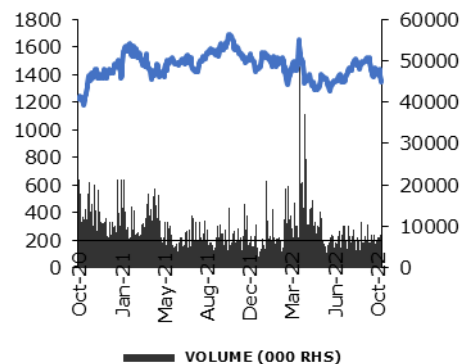
Equity Cap (INR mn)	5575
Face Value (INR)	1.0
Free float (%)	74.2
INR / USD	82.3
Market cap (INR bn)	8,056.2
Market cap (USD bn)	97.9
52 Wk High/Low (INR)	1724 / 1271
Avg traded vol (Nos Shares)*	7,651,487
Avg trading value (INR mn)*	10651

\* 6 months NSE average

#### Shareholding Pattern (%) – June'21

Promoter	25.7
Foreign Institutional Investor	32.3
MF / FI / UTI / Banks	18.0
Non Institutions	14.7
Others	9.3

2 yr Price and Volume Chart



Analyst

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## BUY

### Result update Q2 FY23

HDFC Bank posted strong results for Q2 FY2023. While the Business performance in-terms of Advances, Deposits growth was healthy but margins performance was enthrusing (QoQ). Positive surprise was on the margins front, as Core NIMs improved to 4.1% (+10BPS QoQ) and on earnings assets NIMs improved to 4.3% (+10BPS QoQ). Strong Asset Quality improvement seen, with GNPA / NNPA improving by 5BPS / 2 BPS sequentially, and at would be one of the lowest in the industry; total credit cost came to 0.87% (from 0.91% in Q1). On the key negatives, the CASA ratio declined by 40 BPS Qoq (but still very healthy at 45% levels). Going forward, the time differential of rate changes in Deposits / Advances as well as change of business mix (higher yield Retail getting back to 55% levels) will provide support to margins. Bank is seeing healthy branch / Banking correspondents / ATMs addition which could take the C/I Ratio to 40-41% in near term. However, with branches maturing and pick up in business traction, we expect the same to normalize to ~39% levels over the longer term (pre-Covid levels). The bank's management indicated that due to the planned network augmentation, and other investments the Cost / Income (C/I) is likely to be elevated in medium term, but will trend down over the long term as the retail business gains momentum. Merger activities are progressing well, and bank expects regulator to allow proper glide path for the transition. At present the stock is available at 2.9x / 2.5x FY2023E / FY2024E ABVPS. We believe valuations have potential to catch up. We continue to find the stock attractive.

#### Strong Operating Performance:

- Net Interest Income (NII) came at INR 210.2 bn, up 18.9% YoY and up 7.9% QoQ, and was in-line with expectations
- Other Income came in at INR 75.96 bn, up 2.6% YoY and up 18.9% QoQ, and saw some treasury losses due to Corporate Bonds yields movement. However, the other aspects of other income continued to perform strong, led by strong retail fee income.
- Bank saw Operating Expenses rise (in line with earlier commentary), due to network expansion and technology investments.
- Pre-provision Operating Profit (PPOP) came in at INR 173.9 bn, up by 10% YoY and down 13% QoQ.
- Provision expenses continue to be benign, at INR 32.4 bn (down on YoY but flat on QOQ basis) which helped the PAT performance.
- As a result, PAT came in at INR 106.1 bn, up 20% YoY and up 15.3% QoQ basis, and was above expectations.
- Margins improved on sequential basis. The Core Net Interest Margin (NIM) stood at 4.1% for Q2 FY2023 (up 10BPS QoQ) and NIM based on earning Assets stood at 4.3% (up 10BPS QoQ).

#### Subsidiaries: HDB Financials performance improves; but HDFC Sec performance muted:

For Q2 FY2023 HDB Financials (HDFC Bank shareholding of 94.9%) posted strong Operational Growth as well as improved asset quality. The net Revenues came in at INR 22.01 bn (up 13% YoY and flat on QoQ Basis). But Its PAT growth stood out, coming at INR 4.71 bn up ~1.4x YoY and 6.8% QoQ. The asset quality improved 7BPS QoQ is also positive.

The performance of HDFC Securities (HDFC Bank shareholding of ~95.8%) was comparatively below par. The Revenues de-growing to INR 4.69 bn (down by -4.4% YoY and +8% QoQ) and PAT came at INR 1.9 bn (down 20.3% YoY and flat QoQ).

## Fee Income traction robust

- Strong Fee income traction was seen, Other income, excluding trading and Mark to Market losses, grew by 16.7% YoY.
- However, due to some Corporate bond spread movement during the quarter, the Treasury income saw a loss of INR 2.5 bn (as against profit of INR 6.75 bn in Q2 FY2022).
- Going forward, the bank indicated that HDFC Bank's strong liability franchise will be a strong growth driver for fee income stream.
- At present, Retail fees comprise of 73% of the total Fee income, up from 70% in Q2 FY2022, but down 300 BPS from Q1 FY2023.

## Business Traction robust, Margins has cushion available as mix changes

### Advances:

- Strong traction in business growth seen, with total advances growing by 23.4% YoY to INR 14,799 bn.
- Segment wise, the Retail loans grew 21.7% YoY, Commercial and Rural banking grew 28.9% while Corporate and other wholesale grew by 15.7% YoY.
- Compared to Q4, the wholesale segment has slowed a tad.
- Composition of Retail loans is rising which will be positive cushion for advances mix.

### Deposits:

- Total Deposits showed a healthy growth and were at INR 16,734.08 bn an increase of 19.0% YoY and bank has been gaining market share in Deposits.
- Bank's CASA deposits have come off by 240bps sequentially. CASA ratio now stands at 45.8 % (vs 48.2 % in Q4 FY2022).
- CASA deposits grew by 15.4% YoY with SA deposits at INR 5297.45 bn and current account (CA) deposits at INR 2299.51 bn, resulting in CASA deposits comprising 45.4% of total deposits (down 40BPS QoQ).

### Network additions continue,

- Bank added 121 branches and ~8.5k employees during Q2 FY2023 to augment its Network base.
- Total Branches stood at 6499 (from 6378 in Q1 FY2023) branches, and 161,027 Employees (from 152,511 employees in Q1 FY2023).

## Well Capitalized, with growth levers and augur well for Asset Quality

- Well capitalized, with CET 1 at 16.3 % (from 16.5 % as on Jun-2022), with Tier 1 at 17.1% (steady from Jun-2022).
- Capital Conservation Buffer of 2.5%, and an additional requirement of 0.20% due to on account of the Bank being identified as a Domestic Systemically Important Bank (D-SIB).
- We believe that being well capitalized, the bank has the capital cushion to withstand challenges, as well as revert to faster growth as and when opportunity presents.
- HDFC Bank's significantly diversified portfolio in terms of geography or customer profile, which should act as a natural hedge.
- The banks' ability to manage stress is well established, which provides investor comfort on the key Asset Quality parameter.

## Valuation & View

We believe that the bank is emerging out to a improving credit demand phase which augurs well for growth and margins going forward. The bank's Q2 performance saw GNPA's decline and the bank has one of the lowest GNPA / NNPA levels among peer banks, which along with its provision buffer provides strength to balance sheet. The management comments indicated a optimistic and positive outlook for the growth for as well as the bank. Bank has been gaining market share in Retail, Corporate and government business and continues to be well placed in terms of network expansion, Capital position, business traction etc which makes us sanguine on its long-term growth prospects. HDFC Bank is currently available at 2.5x / 2.2x FY2023E / FY2024E ABVPS and we believe is reasonable.

## Exhibit 1: Quarterly Financials

(INR mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23E	YoY(%)	QoQ(%)
<b>Profit &amp; Loss</b>							
Interest Income	3,13,534	3,24,681	3,34,487	3,51,720	3,85,864	23.1%	9.7%
Interest Expenses	1,36,690	1,40,246	1,45,760	1,56,906	1,75,652	28.5%	11.9%
<b>Net Interest Income</b>	<b>1,76,844</b>	<b>1,84,435</b>	<b>1,88,727</b>	<b>1,94,814</b>	<b>2,10,212</b>	<b>18.9%</b>	<b>7.9%</b>
Other Income	74,008	81,836	76,371	63,882	75,956	2.6%	18.9%
<i>Treasury Income</i>	6,755	10,465	(403)	(13,117)	(2,531)	-137.5%	-80.7%
Operating Expenses	92,779	98,511	1,01,528	1,05,018	1,12,246	21.0%	6.9%
<i>Staff Cost</i>	29,671	31,544	31,446	35,002	35,238	18.8%	0.7%
<i>Other opex</i>	63,108	66,967	70,082	70,016	77,007	22.0%	10.0%
<b>Operating Profit</b>	<b>1,58,073</b>	<b>1,67,760</b>	<b>1,63,570</b>	<b>1,53,678</b>	<b>1,73,922</b>	<b>10.0%</b>	<b>13.2%</b>
Provisions	39,247	29,940	33,124	31,877	32,401	-17.4%	1.6%
<b>Profit Before Tax</b>	<b>1,18,826</b>	<b>1,37,820</b>	<b>1,30,447</b>	<b>1,21,801</b>	<b>1,41,520</b>	<b>19.1%</b>	<b>16.2%</b>
Tax	30,483	34,398	29,895	29,841	35,463	16.3%	18.8%
<b>Net Profit</b>	<b>88,343</b>	<b>1,03,422</b>	<b>1,00,552</b>	<b>91,960</b>	<b>1,06,058</b>	<b>20.1%</b>	<b>15.3%</b>
Equity	5,538	5,542	5,546	5,555	5,570	0.6%	0.3%
<b>EPS</b>	<b>16.0</b>	<b>18.7</b>	<b>18.1</b>	<b>16.6</b>	<b>19.0</b>	<b>19.4%</b>	<b>15.0%</b>
<b>Ratios</b>							
Yield On Advances (%)	8.37	8.40	8.33	9.43	9.56	119bps	12bps
Cost of Funds (%)	4.03	4.06	4.05	4.61	4.78	74bps	16bps
<b>NIM - R (%)</b>	<b>4.10</b>	<b>4.10</b>	<b>4.00</b>	<b>4.00</b>	<b>4.10</b>	<b>0bps</b>	<b>10bps</b>
Cost - Income Ratio (%)	37.0	37.0	38.3	40.6	39.2	223bps	-138bps
Tax Rate (%)	25.7	25.0	22.9	24.5	25.1	-60bps	55bps
Credit / Deposit (%)	85.2	87.2	87.8	86.9	88.4	318bps	150bps
CASA (%)	46.8	47.1	48.2	45.8	45.4	-141bps	-39bps
<b>Balance Sheet Details</b>							
Advances	1,19,88,374	1,26,08,628	1,36,88,209	1,39,50,677	1,47,98,732	23.4%	6.1%
Deposits	1,40,63,433	1,44,59,181	1,55,92,174	1,60,47,600	1,67,34,080	19.0%	4.3%
<b>Business Volumes</b>	<b>2,60,51,807</b>	<b>2,70,67,810</b>	<b>2,92,80,384</b>	<b>2,99,98,277</b>	<b>3,15,32,812</b>	<b>21.0%</b>	<b>5.1%</b>
CASA	65,82,320	68,12,240	75,10,500	73,46,470	75,96,960	15.4%	3.4%
<b>CAR (%)</b>	<b>20.0</b>	<b>19.5</b>	<b>18.9</b>	<b>18.1</b>	<b>18.0</b>	<b>-200bps</b>	<b>-10bps</b>
<i>CAR - Tier - I</i>	18.7	18.4	17.9	17.1	17.1	-160bps	0 bps
<b>Asset Quality</b>							
Gross NPA	1,63,461	1,60,136	1,61,410	1,80,337	1,83,010	12.0%	1.5%
Net NPA	47,551	46,768	44,077	48,877	48,829	2.7%	-0.1%
Gross NPA (%)	1.35	1.26	1.17	1.28	1.23	-12bps	-5bps
Net NPA (%)	0.40	0.37	0.32	0.35	0.33	-7bps	-2bps
Provision Coverage (Calc)	70.9	70.8	72.7	72.9	73.3	240bps	42bps

Source: Anvil Research, Company

## Profit & loss account

Y/E March (Rs mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
Interest Income	11,48,127	12,08,582	12,77,531	16,11,812	18,97,404
Interest Expenses	5,86,264	5,59,787	5,57,435	7,05,422	8,38,332
Net Interest Income	5,61,863	6,48,796	7,20,096	9,06,389	10,59,072
Other Income	2,32,608	2,52,049	2,95,099	3,29,336	3,88,963
Operating Income	7,94,471	9,00,845	10,15,195	12,35,725	14,48,035
Operating Expenses	3,06,975	3,27,226	3,74,422	4,63,578	5,37,671
Operating Profit	4,87,495	5,73,618	6,40,773	7,72,148	9,10,364
Provisions and Contingencies	1,21,424	1,57,029	1,50,618	1,74,380	2,09,320
Profit before Tax	3,66,072	4,16,590	4,90,155	5,97,767	7,01,044
Provision for Tax	1,03,498	1,05,425	1,20,541	1,53,028	1,79,467
Profit after Tax	2,62,573	3,11,165	3,69,614	4,44,739	5,21,576

Source: Anvil Research, Company

## Balance Sheet

Y/E March (Rs mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
<b>Sources of Funds</b>					
Equity Capital	5,483	5,513	5,546	5,546	5,546
Reserves & Surplus	17,04,377	20,31,696	23,95,384	27,96,723	32,74,900
<b>Net Worth</b>	<b>17,09,860</b>	<b>20,37,208</b>	<b>24,00,929</b>	<b>28,02,269</b>	<b>32,80,446</b>
ESOP's & Warrants	-	-	-	-	-
Deposits	1,14,75,023	1,33,50,602	1,55,92,174	1,86,32,648	2,22,66,015
Borrowings	14,46,285	13,54,873	18,48,172	18,99,855	19,53,347
Other Liabilities	6,73,944	7,26,022	8,44,075	10,21,330	12,35,810
<b>Total Liabilities</b>	<b>1,53,05,113</b>	<b>1,74,68,705</b>	<b>2,06,85,351</b>	<b>2,43,56,103</b>	<b>2,87,35,617</b>
<b>Application of Funds</b>					
Cash & Balance with Bank	7,22,051	9,73,407	12,99,956	13,23,119	13,72,226
Bal. with Banks/ Short Notice	1,44,136	2,21,297	2,23,313	2,02,658	1,72,364
Advances	99,37,029	1,13,28,366	1,36,88,209	1,65,62,733	2,00,40,907
Investments	39,18,267	44,37,283	45,55,357	52,38,660	60,24,460
Fixed Assets	44,319	49,093	60,837	89,775	97,283
Other Assets	5,39,311	4,59,259	8,57,678	9,39,158	10,28,378
<b>Total Assets</b>	<b>1,53,05,113</b>	<b>1,74,68,705</b>	<b>2,06,85,351</b>	<b>2,43,56,103</b>	<b>2,87,35,617</b>

Source: Anvil Research, Company

## Ratios

Y/E March (INR mn)	FY2020	FY2021	FY2022	FY2023E	FY2024E
<b>Valuation</b>					
EPS (Rs)	48	56	67	80	94
Book Value (Rs)	312	370	433	505	592
Adj. Book Value (Rs)	305	361	425	486	567
P/E (x)	30.2	25.6	21.7	18.0	15.4
P/BV (x)	4.6	3.9	3.3	2.9	2.4
P/ABV (x)	4.7	4.0	3.4	3.0	2.5
<b>Profitability (%)</b>					
RoANW	16.4	16.6	16.7	17.1	17.1
RoAA	1.9	1.9	1.9	2.0	2.0
Cost / Income Ratio	38.6	36.3	36.9	37.5	37.1
Cost / Avg. Earning Assets	2.3	2.1	2.0	2.1	2.1
Avg. yield on Advances	10.1	8.9	7.9	8.6	8.3
Avg. yield on Investments	6.0	5.6	5.8	5.9	5.9
Avg. cost on Deposits	4.9	4.0	3.4	3.6	3.7
Spread	3.6	3.6	3.4	3.7	3.7
Net Interest Margin	4.2	4.1	3.9	4.2	4.2
<b>Growth (%)</b>					
Net Interest Income	40.1	34.5	11.0	25.9	16.8
Other Income	52.8	43.0	17.1	11.6	18.1
Operating Profit	49.4	44.3	11.7	20.5	17.9
Net Profit	50.2	47.6	18.8	20.3	17.3
Credit	50.9	38.3	20.8	21.0	21.0
Deposit	45.5	44.6	16.8	19.5	19.5
C/D ratio	86.6	84.9	87.8	88.9	90.0
Investment / Deposit Ratio	34.1	33.2	29.2	28.1	27.1
<b>Asset Quality</b>					
Gross NPA (INR mn)	1,26,500	1,50,860	1,61,410	2,08,409	3,11,867
Net NPA (INR mn)	35,423	45,548	44,077	1,06,815	1,33,497
Gross NPA (%)	1.26	1.32	1.17	1.25	1.54
Net NPA (%)	0.36	0.40	0.32	0.64	0.67
<b>Dividend</b>					
DPS (Rs)	20.0	-	15.6	13.0	13.0
<b>Capital Adequacy (%)</b>					
CAR	18.5	18.8	18.9	18.8	17.9
<b>Efficiency</b>					
Avg. Business per Emp. (INR mn)	183.1	205.5	206.8	240.1	279.1
Avg Profit per Emp. (INR mn)	2.02	2.39	2.40	2.78	3.19

Source: Anvil Research, Company

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