

# HDFC Bank

01 June, 2023

Reuters: HDBK.BO; Bloomberg: HDFCB IN

## Bullish on balance sheet expansion and sustaining RoA

We recently hosted the management of HDFC Bank, represented by Mr. Bhavin Lakhpatwala - EVP Finance and Mr. Aseem Pant - VP Investor Relations as part of the two-day Nirmal Bang investor conference. The bank's management provided updates about the merger with HDFC Ltd. and clarifications on PSL requirements thereof. It highlighted the renewed focus on revamping their technological capabilities and furthermore emphasized on scaling up the unsecured retail book. The management indicated that the bank's margin may be impacted by the merger transition, but it is confident of sustaining RoA ~1.9-2%. We continue to remain positive about HDFC Bank and maintain BUY with a target price (TP) of Rs1,958.

**Merger update and PSL requirement post merger:** The merger is on schedule and is expected to be completed by July'23. HDFC Bank is likely to get Rs1.25trn in deposits and Rs1.5bn in bonds from HDFC Ltd. The management indicated that with the RBI's dispensation received, only 1/3<sup>rd</sup> of ~Rs6trn would be included in the first year post merger for PSL requirement, which would be ~Rs800bn. Moreover, PSL requirements are looked at on a quarterly basis and thus Sept'23 will be the first reckoning date post merger. However, on that date, the ANBC being looked at would be of one year prior i.e. of Sept'22. Thus, HDFC Ltd's assets will not be included for PSL requirements on Sept'23 and would come for recognition. The management also highlighted that HDFC Ltd's loan book consists of Rs400bn of PSL compliant credit. Further, the bank has shortfall on the small and marginal farmers' bucket of PSL requirements and is likely to put a cost of ~1.5% at the PBT level.

**Focus on the unsecured retail book:** Given the superior underwriting capabilities, 10-second loans have been a growth driver and now constitute 35% of personal loans. Moreover, the bank plans to extend 10-second loans to New To Bank (NTB) customers along with the current offering of express car loans available to NTB customers. On credit cards, the management highlighted that the settlement amount paid by the bank for card security is 1/10<sup>th</sup> of what the industry pays. Meanwhile, there has been no pick-up in revolver rates. The management emphasized that not all segments are out of the woods and the bank remains cautious about the lower strata of borrowers.

**Other highlights:** The management highlighted that growth will not be constrained by deposits as the bank is targeting market share gains in deposits besides its renewed focus on a well-diversified wholesale funded franchise. In FY23, hedging costs increased as USD remained volatile. However, the borrowing cost differential between domestic and foreign markets has decreased because INR has relatively performed well compared to other global currencies. The management further indicated that the tenures of ECBs are typically 3-years to 5-years while longer tenure of 10-years comprises only G-Secs. Nominal GDP growth is expected to be ~11-12%, thus credit growth is expected to be in mid-teens.

The difference between the bank's Cost of Funds (CoF) and that of HDFC Ltd. is 250bps. The management highlighted that the Yield, CoF and NIM may fluctuate going forward, but it is confident of sustaining RoA ~1.9-2%. The bank would continue to expand its physical presence and consequently the opex is likely to remain elevated. The management also highlighted that although the C/I ratio is higher when the bank is opening more branches, but it reduces significantly post completion of expansion as operating efficiencies kick in. This thereby ensures sustainability of the long-term average C/I ratio as well as RoAs.

**Revamping technological capabilities and platforms:** The bank has been a laggard in the technology domain, but it has been aggressive in up-scaling tech platforms and significant improvements have been done in areas of building a common tech stack over which all other products of internet banking, mobile banking, whatsapp banking etc will be built upon. Key initiatives likely to be launched in the near term include: (a) Payzapp 2.0 (indicated launch by the end of 2023), which would be a unified app for all the banking needs of HDFC Bank customers as well as NTB customers (b) 10-second personal loans for NTB customers (c) seamless integration of all the bank's as well as cross-sell products on a single platform to boost RM productivity. Moreover, branches will shift from a physical Relationship Manager (RM) to a virtual RM.

## BUY

**Sector:** Banking

**CMP:** Rs 1,604

**Target Price:** Rs1,958

**Upside:** 22%

**Nikhil Shah**

Research Analyst

[nikhil.shah@nirmalbang.com](mailto:nikhil.shah@nirmalbang.com)

+91-22-6273 8092

### Key Data

Current Shares O/S (mn)	5,588.0
Mkt Cap (Rsbm/US\$bn)	8,963.2/108.8
52 Wk H / L (Rs)	1,734/1,272
Daily Vol. (3M NSE Avg.)	16,128,650

### Price Performance (%)

	1 M	6 M	1 Yr
HDFC bank	(5.0)	(1.0)	15.0
Nifty Index	1.9	(1.1)	11.2

Source: Bloomberg

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	648,796	720,096	868,422	959,363	1,097,806
Pre-provisioning operating profit	573,618	640,773	704,050	828,547	948,648
PAT	311,165	369,614	441,087	508,339	583,733
EPS (Rs)	56	67	79	91	105
BV (Rs)	370	433	502	571	649
P/E (x)	29.0	24.6	20.7	18.0	15.6
P/BV (x)	4.4	3.8	3.3	2.9	2.5
Gross NPAs (%)	1.3	1.2	1.1	1.3	1.3
Net NPAs (%)	0.4	0.3	0.3	0.3	0.3
RoA (%)	1.9	1.9	1.9	1.9	1.9
RoE (%)	16.6	16.7	17.0	17.0	17.2

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 3: Income statement**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	1,208,582	1,277,531	1,615,856	1,894,870	2,154,942
Interest expense	559,787	557,435	747,433	935,507	1,057,136
<b>Net interest income</b>	<b>648,796</b>	<b>720,096</b>	<b>868,422</b>	<b>959,363</b>	<b>1,097,806</b>
Non-interest income	252,049	295,099	312,148	439,507	485,614
<b>Net Revenue</b>	<b>900,845</b>	<b>1,015,195</b>	<b>1,180,571</b>	<b>1,398,870</b>	<b>1,583,420</b>
Operating Expense	327,226	374,422	476,521	570,323	634,772
-Employee Exp	103,648	120,317	155,124	172,423	187,409
-Other Exp	223,578	254,105	321,397	397,900	447,363
<b>Operating profit</b>	<b>573,618</b>	<b>640,773</b>	<b>704,050</b>	<b>828,547</b>	<b>948,648</b>
Provisions	157,029	150,618	119,197	154,522	174,657
<b>PBT</b>	<b>416,590</b>	<b>490,155</b>	<b>584,853</b>	<b>674,025</b>	<b>773,992</b>
Taxes	105,425	120,541	143,766	165,686	190,259
<b>PAT</b>	<b>311,165</b>	<b>369,614</b>	<b>441,087</b>	<b>508,339</b>	<b>583,733</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Balance sheet**

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	5,513	5,546	5,580	5,580	5,580
Reserves & Surplus	2,031,696	2,395,384	2,796,411	3,177,665	3,615,465
<b>Shareholder's Funds</b>	<b>2,037,208</b>	<b>2,400,929</b>	<b>2,801,990</b>	<b>3,183,245</b>	<b>3,621,044</b>
<b>Deposits</b>	<b>13,350,602</b>	<b>15,592,174</b>	<b>18,833,947</b>	<b>21,659,038</b>	<b>24,366,418</b>
Borrowings	1,354,873	1,848,172	2,067,656	2,566,596	2,972,703
Other liabilities	726,022	844,075	957,223	983,603	1,101,829
<b>Total liabilities</b>	<b>17,468,705</b>	<b>20,685,351</b>	<b>24,660,815</b>	<b>28,392,482</b>	<b>32,061,995</b>
Cash/Equivalent	1,194,704	1,523,269	1,937,651	2,176,301	2,239,446
<b>Advances</b>	<b>11,328,366</b>	<b>13,688,209</b>	<b>16,005,859</b>	<b>18,486,767</b>	<b>21,167,348</b>
Investments	4,437,283	4,555,357	5,170,014	5,945,516	6,627,790
Fixed Assets	49,093	60,837	80,166	96,704	112,446
Other assets	459,259	857,678	1,467,125	1,687,194	1,914,965
<b>Total assets</b>	<b>17,468,705</b>	<b>20,685,351</b>	<b>24,660,815</b>	<b>28,392,482</b>	<b>32,061,995</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Key ratios**

Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>					
NII growth	15.5	11.0	20.6	10.5	14.4
Pre-provision profit growth	17.7	11.7	9.9	17.7	14.5
PAT growth	18.5	18.8	19.3	15.2	14.8
<b>Business (%)</b>					
Deposit growth	16.3	16.8	20.8	15.0	12.5
Advance growth	14.0	20.8	16.9	15.5	14.5
CD	84.9	87.8	85.0	85.4	86.9
CASA	46.1	48.2	44.4	43.5	43.0
<b>Operating efficiency (%)</b>					
Cost/income	36.3	36.9	40.4	40.8	40.1
Cost-to-assets	2.0	2.0	2.1	2.2	2.1
<b>Spreads (%)</b>					
Yield on advances	8.9	7.9	8.6	8.7	8.6
Yield on investments	5.6	5.8	6.4	6.6	6.6
Cost of deposits	4.0	3.4	3.8	3.9	3.9
Yield on assets	7.6	7.0	7.6	7.7	7.6
Cost of funds	4.1	3.5	3.9	4.1	4.1
NIMs	4.1	3.9	4.1	3.9	3.9
<b>Capital adequacy (%)</b>					
Tier I	17.6	17.9	16.5	16.5	16.7
Tier II	1.2	1.0	0.9	0.8	0.8
Total CAR	18.8	18.9	17.5	17.3	17.5
<b>Asset Quality (%)</b>					
Gross NPA	1.3	1.2	1.1	1.3	1.3
Net NPA	0.4	0.3	0.3	0.3	0.3
PCR	69.5	72.5	75.5	74.6	74.5
Slippage	1.4	1.9	2.0	1.9	1.9
Credit cost	1.5	1.2	0.8	0.9	0.9
<b>Return (%)</b>					
ROE	16.6	16.7	17.0	17.0	17.2
ROA	1.9	1.9	1.9	1.9	1.9
RORWA	2.9	3.0	2.9	2.9	2.9
<b>Per share</b>					
EPS	56	67	79	91	105
BV	370	433	502	571	649
ABV	367	431	500	568	646
<b>Valuation</b>					
P/E	29.0	24.6	20.7	18.0	15.6
P/BV	4.4	3.8	3.3	2.9	2.5
P/ABV	4.4	3.7	3.2	2.8	2.5

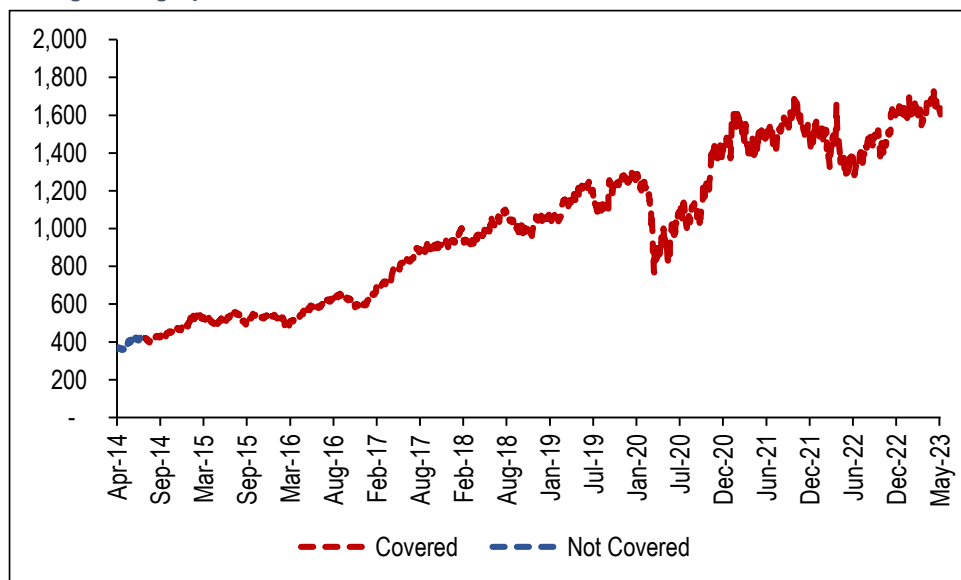
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
22 July 2014	Buy	830	960
8 October 2014	Buy	860	960
22 October 2014	Buy	897	1,060
16 February 2015	Buy	1,066	1,265
24 April 2015	Buy	1,012	1,265
22 July 2015	Buy	1,095	1,265
23 October 2015	Buy	1,095	1,265
27 January 2016	Buy	1,041	1,305
25 April 2016	Buy	1,094	1,315
22 July 2016	Buy	1,230	1,450
26 October 2016	Buy	1,247	1,570
25 January 2017	Buy	1,270	1,570
14 February 2017	Buy	1,311	1,690
24 April 2017	Buy	1,499	1,820
25 July 2017	Buy	1,707	2,025
25 October 2017	Buy	1,866	2,205
22 January 2018	Buy	1,952	2,301
23 April 2018	Buy	1,961	2,301
23 July 2018	Buy	2,189	2,541
9 October 2018	Buy	1,945	2,519
22 October 2018	Buy	1,968	2,442
21 January 2019	Buy	2,131	2,443
8 April 2019	Accumulate	2,306	2,514
22 April 2019	Accumulate	2,293	2,547
8 July 2019	Accumulate	2,472	2,719
22 July 2019	Accumulate	2,376	2,576
7 October 2019	Accumulate	1,190	1,335
22 October 2019	Accumulate	1,229	1,334
8 January 2020	Accumulate	1,257	1,322
20 January 2020	Accumulate	1,278	1,358
27 March 2020	Buy	898	1,282
9 April 2020	Buy	889	1,282
20 April 2020	Buy	915	1,260
9 July 2020	Buy	1,110	1,347
20 July 2020	Buy	1,103	1,425
23 September 2020	Buy	1,038	1,494
7 October 2020	Buy	1,162	1,487
19 October 2020	Buy	1,094	1,484
26 November 2020	Accumulate	1,403	1,594
8 January 2021	Buy	1,416	1,680
18 January 2021	Buy	1,466	1,740
21 February 2021	Buy	1,545	1,832
18 April 2021	Buy	1,431	1,839
18 July 2021	Buy	1,521	1,817
26 September 2021	Buy	1,602	1,954
18 October 2021	Buy	1,687	1,962
16 January 2022	Buy	1,543	2,006
14 March 2022	Buy	1,430	2,151
5 April 2022	Buy	1,654	2,151

17 April 2022	Buy	1,464	2,042
17 July 2022	Buy	1,364	1,999
19 September 2022	Buy	1497	2105
16 October 2022	Buy	1446	1805
15 January 2023	Buy	1601	1854
22 March 2023	Buy	1563	1848
17 April 2023	Buy	1692	1958
25 May 2023	Buy	1613	1958
01 June 2023	Buy	1604	1958

Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010