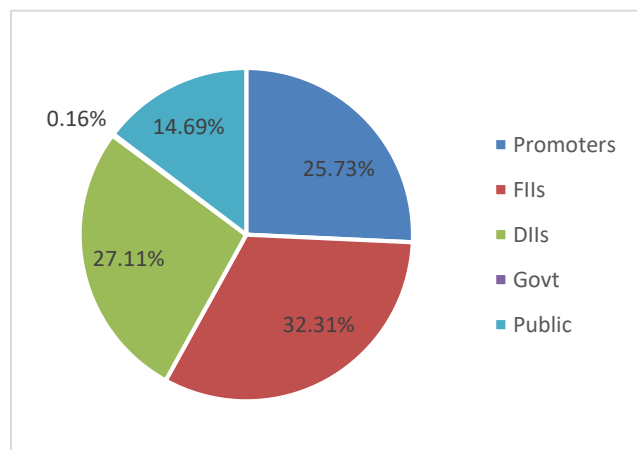


July 2022

## VALUE PARAMETERS

Face Value (Rs.)	1.00
Mrk.Cap (Rs. in Cr)	758,854
52-Week High/Low	1,725/1,272
EPS (TTM)	69.3
P/E Ratio (TTM)	19.7
Book Value per share (Rs)	432
Industry P/E	18.3
P/B Ratio (calc at CMP)	3.14
Dividend Yield (%)	1.14
Enterprise value (Rs in Cr)	10,481,040

## SHAREHOLDING PATTERN



## FINANCIAL PERFORMANCE

Standalone	FY22	FY23E	FY24E
NII (Rs. bn)	720	828	990
Op. Profit	641	721	863
PAT	370	427	520
EPS (Rs)	66.7	77.1	93.7
DPS (Rs)	15.5	18.5	19.5
NIM	4.1	3.9	4
P/E	20.4	17.6	14.5
P/BV	3.1	2.7	2.5
RoE	16.7	16.6	17.9
RoA	1.9	1.9	2

**Our Recommendation:** HDFC Bank reported good quarter with earnings beating estimates led by growth in NII and other income. Given the present scenario of strong financials, opening up of economy after COVID, high spending on Opex with retail segment in focus, we expect the company would outperform its peers in coming months. Recent RBI approval of merger would keep prices volatile. Thus, we recommend BUY in price range Rs. 1325-1375 with target price Rs 1600 (upside 18.5%).

**Investment Rationale:**

**About Company:** HDFC Bank is the largest private sector bank that has reported consistent growth and superior operational performance in various economic cycles. The bank has reported return ratios that are superior to its peers in banking sector in the past many years. The bank has loan book of Rs 13.9 lakh crore. The bank reported more than 4% NIM and 15% ROE in last many years..

**Q1FY23 Results:** PAT impacted by treasury loss, slippages increased, mixed operational performance.

- Net revenue increased by 19.8% to Rs 27,181 crore in June quarter from Rs 22,696.5 crore in the same quarter last year.
- Net Profit rose by 19% YoY to Rs 9,196 crore from Rs 7,729 crore in year-ago period.
- Net Interest Income (NII) increased by 14.5% to Rs 19,481 crore from Rs 17,000 crore for the same quarter last year.
- Loans increased 21.1% YoY at 13.9 lakh crore; deposits up 19.2% YoY.
- GNPA increased by 11 bps QoQ to 1.28%.

**Business growth continued:** The bank reported improvement in credit growth to 21.6% year-on-year basis to Rs. 13.9 lakh crore. Corporate and wholesale book increased by 16.7%. Commercial loan book increased to 29% year-on-year basis with retail increased by 22% year-on-year basis. Total deposits increased by 19.2%. CASA deposits reported growth of 20.1% but reduced 2.2% on sequential basis.

**Asset quality reduced due to increased slippages:** Asset quality fell a bit due to increase in slippages that rose to Rs 7.2bn or 2%. GNPA stood at 1.28% vs 1.17%. 25% of this slippages are attributed to OTR and agriculture but recoveries were better and management expect recoveries will improve significantly in coming quarters.

**Opex will be higher:** Opex was higher by 3.8% QoQ due to addition of 10,900 employees due increased focus on retail loans. With the merger is round the corner, more operating expenditures are estimated.

**Key Highlights of Management Commentary**

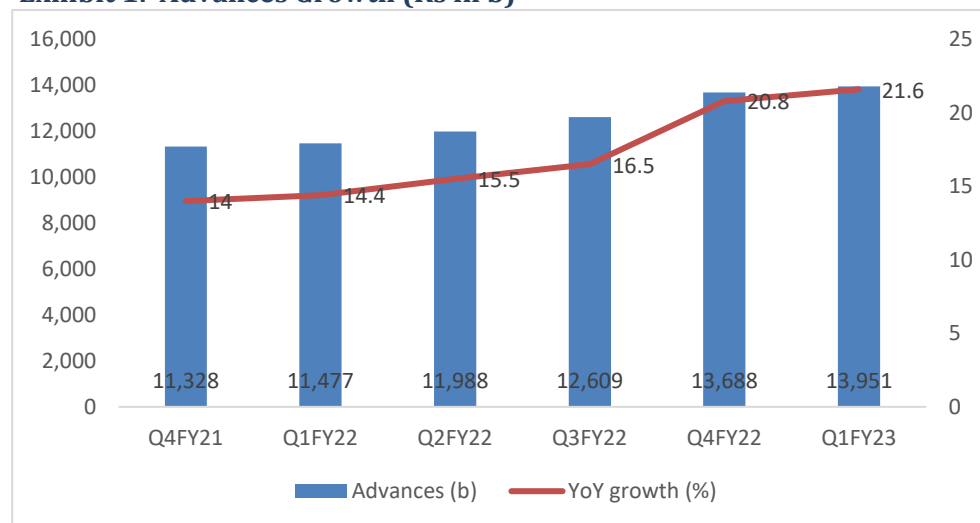
- Economic environment is improving after opening up the economy to its full potential after COVID. Vehicle loans and infra loans segment will see rise but high commodity prices, inflation and weakening of rupee are major growth concerns.
- Bank added 36 new branches during the quarter and 250 will be added in coming quarters thereby increasing opex.
- Slippages are at 50 bps at Rs. 7.2 bn due to agri and OTR.
- CI ratio will continue to be higher due to employee addition and opening of new branches.
- Loan growth up by 21.6% at 13.9 lakh crore.

## Financials and Valuations

### Q1FY23 Quarterly snapshot (Rs in bn)

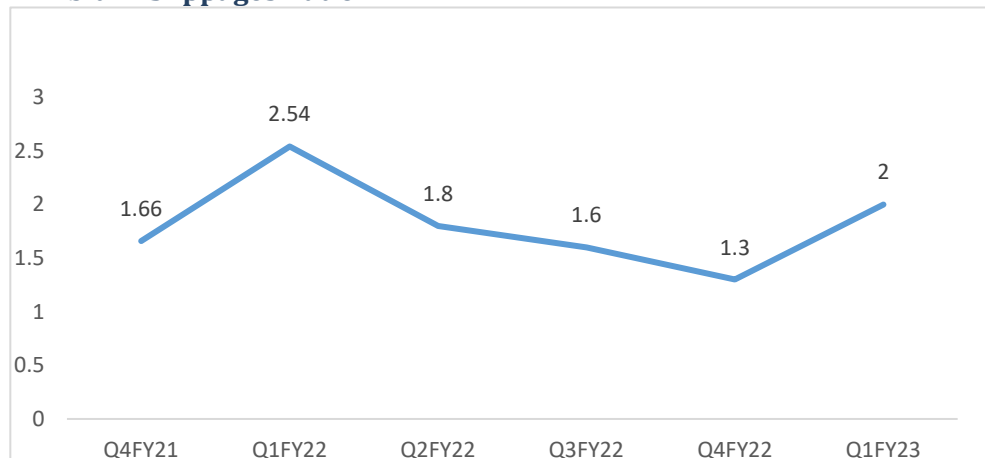
Y/E: March	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Interest Income	351.7	304.8	334.5	15.4	5.2
Interest Expenses	156.9	134.7	145.8	16.5	7.6
<b>Net Interest Income</b>	<b>194.8</b>	<b>170.1</b>	<b>188.7</b>	<b>14.5</b>	<b>3.2</b>
Non-Interest Income	63.9	62.9	76.4	1.6	-16.4
<b>Operating Income</b>	<b>258.7</b>	<b>233.0</b>	<b>265.1</b>	<b>11</b>	<b>-2.4</b>
Employee Cost	35.0	27.7	31.4	26.6	11.3
Other Op. Exp.	70.0	53.9	70.1	29.8	-0.1
Total Operating Expenses	105.0	81.6	101.5	28.7	3.4
<i>Cost to Income (%)</i>	<i>40.6</i>	<i>35.0</i>	<i>38.3</i>	<i>557 bps</i>	<i>230 bps</i>
<b>Operating Profit</b>	<b>153.7</b>	<b>151.4</b>	<b>163.6</b>	<b>1.5</b>	<b>-6</b>
Provisions	31.9	48.3	33.1	-34	-3.8
<b>PBT</b>	<b>121.8</b>	<b>103.1</b>	<b>130.4</b>	<b>18.2</b>	<b>-6.6</b>
Tax	29.8	25.8	29.9	15.8	-0.2
<i>-effective tax rate</i>	<i>24.5</i>	<i>25.0</i>	<i>22.9</i>	<i>-50 bps</i>	<i>158 bps</i>
<b>PAT</b>	<b>92.0</b>	<b>77.3</b>	<b>100.6</b>	<b>19</b>	<b>-8.5</b>
EPS (Rs)	16.6	14.0	18.1	18.4	-8.7
BV (Rs)	450.6	384.5	433.0	17.2	4.1
Deposits	16,048	13,458	15,592	19.2	2.9
Advances	13,951	11,477	13,688	21.6	1.9

### Exhibit 1: Advances Growth (Rs in b)



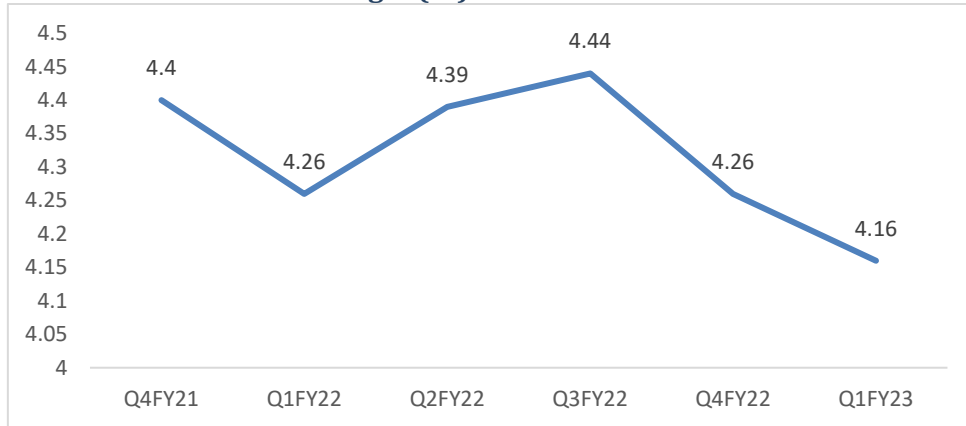
Advances growth has been consistently strong in the last six quarters.

### Exhibit 2: Slippages Ratio



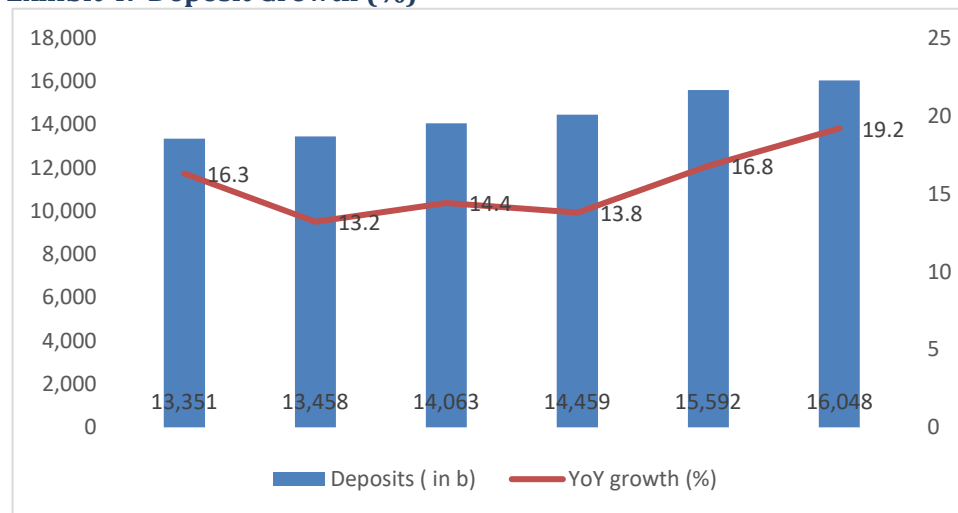
Slippage ratio increased on sequential basis.

**Exhibit 3: Net Interest Margin (%)**



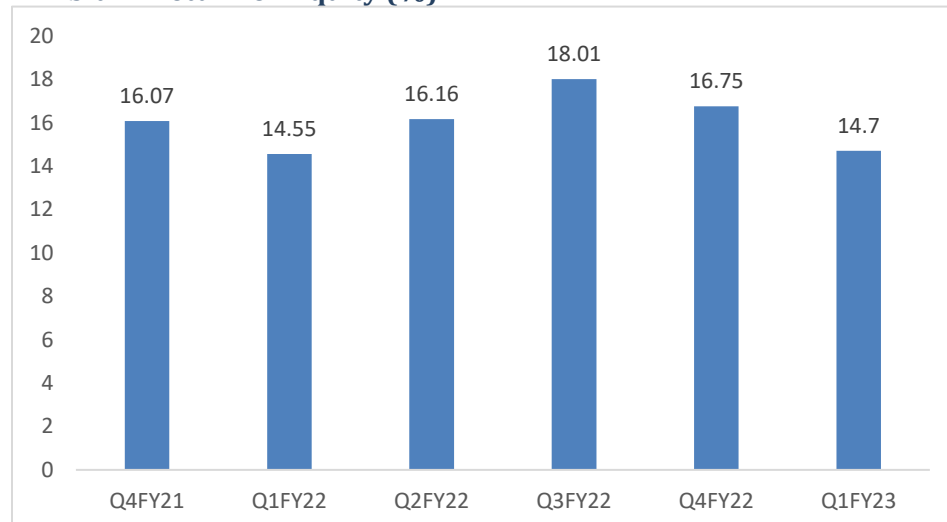
*Net Interest Margin declined sequentially.*

**Exhibit 4: Deposit Growth (%)**



*Deposit growth continued to increase sequentially.*

**Exhibit 4: Return on Equity (%)**



*Return on Equity continued to decline consistently in last three quarters.*

## Income Statement, standalone (Rs. bn)

Y/E March	FY21	FY22	FY23E	FY24E
Interest Income	1,208.6	1,277.5	1,537.4	1,850.1
Interest Expense	559.8	557.4	709.5	860
<b>Net Interest Income</b>	<b>648.8</b>	<b>720.1</b>	<b>827.9</b>	<b>990.1</b>
<i>Growth (%)</i>	<i>15.5</i>	<i>11</i>	<i>15</i>	<i>19.6</i>
Non-Interest Income	252	295.1	332.6	376.8
<b>Total Income</b>	<b>900.8</b>	<b>1,015.2</b>	<b>1,160.5</b>	<b>1,366.9</b>
<i>Growth (%)</i>	<i>13.4</i>	<i>12.7</i>	<i>14.3</i>	<i>17.8</i>
Operating Expenses	327.2	374.4	439.5	504
<b>Pre-Provision Profit</b>	<b>573.6</b>	<b>640.8</b>	<b>721.0</b>	<b>862.9</b>
<i>Growth (%)</i>	<i>17.7</i>	<i>11.7</i>	<i>12</i>	<i>19.6</i>
PPP	549.2	601.7	677	811
<i>Growth (%)</i>	<i>17.9</i>	<i>9.6</i>	<i>12.5</i>	<i>19.79</i>
Provisions (excl. tax)	157	150.6	148	164.7
<b>PBT</b>	<b>416.6</b>	<b>490.2</b>	<b>573.0</b>	<b>698.2</b>
Tax	105.4	120.5	146.43	177.8
<i>Tax Rate (%)</i>	<i>25.3</i>	<i>24.6</i>	<i>25.1</i>	<i>25.46</i>
<b>PAT</b>	<b>311.2</b>	<b>369.7</b>	<b>426.6</b>	<b>520.4</b>
<i>Growth (%)</i>	<i>18.5</i>	<i>18.8</i>	<i>15.4</i>	<i>21.9</i>

## Balance Sheet, standalone (Rs. bn)

Y/E March	FY21	FY22	FY23E	FY24E
Equity Share Capital	5.5	5.5	5.5	5.5
Reserves and Surplus	2,031.7	2,395.4	2,746.9	3,037.8
<b>Net Worth</b>	<b>2,037.2</b>	<b>2,400.9</b>	<b>2,752.4</b>	<b>3,043.3</b>
<b>Deposits</b>	<b>13,350.6</b>	<b>15,592.2</b>	<b>18,892.9</b>	<b>22,000.0</b>
<i>Growth (%)</i>	<i>16.3</i>	<i>16.8</i>	<i>21.6</i>	<i>16.4</i>
of which CASA Deposits	6,156.8	7,510.5	8,302.0	10,120.0
<i>Growth (%)</i>	<i>27</i>	<i>22</i>	<i>10.54</i>	<i>21.9</i>
Borrowings	1,354.9	1,848.2	1,983.5	2,132.0
Other Liabilities and Prov.	726	844.1	913	990.8
<b>Total Liabilities</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>24,541.8</b>	<b>28,166.1</b>
Current Assets	1,194.70	1,523.30	1,592.63	1,675.10
<b>Investments</b>	<b>4,437.3</b>	<b>4,555.4</b>	<b>5,036.6</b>	<b>5,762.1</b>
<i>Growth (%)</i>	<i>13.2</i>	<i>2.7</i>	<i>10.56</i>	<i>14.4</i>
<b>Loans</b>	<b>11,328.4</b>	<b>13,688.2</b>	<b>16,339.1</b>	<b>19,215.7</b>
<i>Growth (%)</i>	<i>14</i>	<i>20.8</i>	<i>19.36</i>	<i>17.6</i>
Fixed Assets	49.1	60.8	67.6	72.6
Other Assets	459.3	857.7	1505.8	1441
<b>Total Assets</b>	<b>17,468.8</b>	<b>20,685.4</b>	<b>24,541.7</b>	<b>28,166.5</b>

**Key Ratios**

Y/E March	FY2021	FY2022	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	56.4	66.7	77.1	93.7
BV/Share	369.5	433	496.3	548.8
DPS	6.5	15.5	18.5	19.5
<b>Valuation Ratios</b>				
P/E	24.1	20.4	17.6	14.5
P/BV	3.7	3.1	2.7	2.5
<b>Return Ratios (%)</b>				
ROE	16.6	16.7	16.6	17.9
ROA	1.9	1.9	1.9	2
<b>Yield and margins</b>				
Net Interest Margin	4.1	4	3.9	4
CASA ratio	46.1	48.2	47	47
Avg. cost on funds	4.1	3.5	3.7	3.8
Avg. cost of deposits	4	3.4	3.7	3.8
<b>Quality and efficiency</b>				
GNPA	1.3	1.2	1.1	1
NNPA	0.4	0.3	0.4	0.4
Credit/Deposit ratio	84.9	87.8	86.5	87.4

VP – Head Research - Dr. Ravi Singh  
Mob: +919810313561  
Email ID: ravi.singh@shareindia.com

**Disclosure:**

We, research team at Share India Securities Ltd. (SISL), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SISL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

We state that Research Analyst or his/her relative or SISL may have any financial interest in the subject company. Also Research Analyst or his relative or SISL or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report.

Further, Research Analyst or his relative or SISL or its associate a) does not have any material conflict of interest at the time of publication of the research report; b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; c) has not received any compensation for investment banking or merchant banking or brokerage services or for any other product/s or service/s or for any other reason whatsoever from the subject company in the past twelve months; d) has not received any compensation or other benefits from the subject company or third party in connection with the research report; e) has not served as an officer, director or employee of the subject company; and f) has not been engaged in market making activity for the subject company.

SISL is a SEBI Registered Research Analyst having registration no. INH100005011.

**Disclaimer:**

This report has been prepared by SISL and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable.

Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject SISL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of SISL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. SISL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mainland/or its attachments.

SISL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

SISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

SISL is a Member of National Stock Exchange of India Limited (NSE), BSE Ltd (Bombay Stock Exchange), Multi Commodity Exchange of India Limited (MCX), National Commodity and Derivatives Exchange Limited (NCDEX), Indian Commodity Exchange Limited (ICEX) and has Depository Participant affiliation with Central Depositories Services (India) Limited (CDSL). It is a SEBI registered Portfolio Manager and SEBI registered Research Analyst [ SEBI Reg. No.:INB/F/E 231079832, INB/F/E 011079838, IN-DP-32-2015, AMFI Reg. No. ARN: 78041, SEBI Research Analyst Reg. No.: INH100005011, CIN - L67120GJ1994PLC115132 ].