

April 22, 2023

Event Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,925		1,925	
NII (Rs. m)	9,83,893	11,27,676	9,86,078	11,42,129
% Chng.	(0.2)	(1.3)		
Op. Profit (Rs. m)	8,04,924	9,10,776	8,04,243	9,10,397
% Chng.	0.1	-		
EPS (Rs.)	86.6	97.7	86.5	97.6
% Chng.	0.1	0.1		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
NII (Rs bn)	720	868	984	1,128
Op. Profit (Rs bn)	641	704	805	911
PAT (Rs bn)	370	441	483	545
EPS (Rs.)	66.7	79.1	86.6	97.7
Gr. (%)	18.1	18.6	9.5	12.9
DPS (Rs.)	6.5	15.4	17.3	19.5
Yield (%)	0.4	0.9	1.0	1.2
NIM (%)	4.2	4.3	4.2	4.2
RoAE (%)	16.7	17.0	16.3	16.3
RoAA (%)	1.9	1.9	1.9	1.9
P/BV (x)	3.9	3.3	3.0	2.6
P/ABV (x)	3.9	3.4	3.0	2.7
PE (x)	25.1	21.2	19.3	17.1
CAR (%)	18.9	18.7	17.9	17.7

Key Data

HDBK.BO | HDFCB IN

52-W High / Low	Rs.1,720 / Rs.1,272
Sensex / Nifty	59,655 / 17,624
Market Cap	Rs.9,335bn/ \$ 1,13,705m
Shares Outstanding	-m
3M Avg. Daily Value	Rs.18726.76m

Shareholding Pattern (%)

Promoter's	25.59
Foreign	32.24
Domestic Institution	28.34
Public & Others	13.83
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	16.3	21.7
Relative	3.1	15.6	18.2

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RBI dispensations pave a smoother path

Quick Pointers:

- HDFC Ltd or HDFCB allowed to increase stake in HDFC Life and HDFC Ergo.
- PSL relaxation received; Positive impact on FY25E core PAT by 2%.

RBI provided certain key relaxations and clarifications to HDFCB related to the merger; which were 1) HDFCB (merged) can hold more than 50% stake in HDFC Life and HDFC ERGO. This removes the overhang of RoE dilution in the merged entity. 2) For PSL, RBI permitted ANBC to be computed on 1/3rd of loans of HDFC Ltd. in the 1st year post merger with the remaining 2/3rd being considered over next 2 years equally. Hence merged entity would not incur any PSL cost in FY25E resulting in core PAT upgrade of 2%. 3) Bank has to comply with CRR, SLR and LCR requirements. Hence, dispensation in terms affordable housing bonds may not be available, which would increase CRR, SLR needs albeit minimally. NIM impact would be insignificant. Basis existing valuation of 2.6x core FY25E ABV, stock trades at a 13% premium to ICICIB. We remain constructive on HDFCB; maintain multiple at 3.0x with SOTP based TP at Rs1925. Retain 'BUY'.

- **RBI allows investments of HDFC Ltd. to continue for HDFCB:** Investments including subsidiaries and associates of HDFC Ltd. are allowed to continue for the Bank. Hence HDFCB or HDFC would need to increase stake in HDFC Life and HDFC ERGO to more than 50%, merger date. While this would certainly be a positive for HDFC Life and HDFC AMC, it confirms our stance and overhang of RoE dilution related to merged entity due to likely stake sale of subsidiaries/associates. Assuming HDFC Ltd. increases stake to 51% in both entities via open market, contribution to SOTP would not change materially. This benefit would be partly offset, as holding in HDFC Credila needs to be brought down to 10% within 2 years. HDFC Credila originally contributed Rs5 per share or 0.2% to SOTP which would now reduce to Rs0.5 per share.
- **PSL relaxation to result in upgrade of FY25 earnings:** For PSL purposes, RBI has permitted ANBC to be computed on 1/3rd of loans of HDFC Ltd. in the 1st year post merger with remaining 2/3rd being considered over next 2 years equally. It was also clarified that PSL norms would apply within 1-year after the merger i.e. in FY25E. Basis feedback from management and our calculations, merged entity would not incur any PSL cost in FY25E due to this dispensation. Our previous estimate of PSL cost was ~Rs19bn on 2% of core PAT (merged). This also gives bank some leeway as it wants to build the PSL portfolio organically via deepening penetration in villages (thru CRB), while evaluating other options (like IBPC, co-lending, PTC, PSLC and RIDF).
- **No relaxation on CRR/SLR/LCR; impact immaterial:** RBI further clarified that bank will have to comply with CRR, SLR and LCR requirements. Hence, management suggested that dispensation in terms of affordable housing bonds may not be available, which would increase CRR, SLR needs albeit minimally. Additional CRR needed would be Rs40-50bn while SLR deficit may be Rs100-150bn (earlier surplus ~Rs130bn); however, NIM impact would be insignificant.

- **Interest Rate benchmark mapping:** Customers would be offered an option to shift to EBLR or MCLR post the effective, transition to take place within 6 months. Rates offered would be competitive to avoid BT-Outs.
- **Loan against shares to continue:** Loan against shares (~Rs50bn) for promoter contribution or loans in excess of Rs20 lacs to individuals, to continue for its existing duration/maturity. Dispensation regarding loan for acquisition and development from land, lending to CICs is awaited.
- **Grandfathering of liabilities awaited:** With respect to grandfathering of liabilities, scheme provides all outstanding liabilities to be transferred on effective date. However, bank would approach the RBI with crystalized amounts of liabilities. Clarity has also been sought and awaited with regards to bonds being issued by HDFC Ltd.

Exhibit 1: As per fresh clarifications, SLR requirement to be immaterial

HDFC Ltd. SLR (FY23) – Rs mn	Prev. Estimates	Revised Estimates
Total Liabilities	57,64,609	57,64,609
Aff. Housing bonds	9,00,000	-
NDTL	48,64,609	57,64,609
SLR required @18% (a)	8,75,630	10,37,630
G-Sec with HDFC Ltd. (b)	5,60,000	4,77,655
Excess SLR with HDFCB (c)	4,44,997	4,44,997
SLR available (b+c)	10,04,997	9,22,652
Surplus/(Deficit) SLR	1,29,368	(1,14,977)

Source: Company, PL

Exhibit 2: Additional CRR requirement could be Rs40bn

HDFC Ltd. CRR (FY23) – Rs mn	Prev. Estimates	Revised Estimates
HDFC Ltd. Liabilities	57,64,609	57,64,609
Aff. Housing bonds	9,00,000	-
Interbank borrowings	14,96,177	14,96,177
NDTL	33,68,432	42,68,432
CRR required @4.5%	1,51,579	1,92,079
Excess CRR with HDFCB	2,35,929	2,35,929
Surplus/(Deficit) CRR	84.350	43,850

Source: Company, PL

Exhibit 3: PSL relaxation results in core earnings upgrade

PSL (Avg. FY23 & FY24) – Rs mn	Prev. Estimates	Revised Estimates
Total loans	66,54,059	66,54,059
Aff. Housing assets	9,00,000	-
ANBC base for PSL	57,54,059	22,18,020
PSL @40%	23,04,040	8,88,139
PSL available with HDFC	3,00,000	12,00,000
PSL to be generated	20,04,040	-
PSL @50% to be met	10,02,020	-
PSLC @50% purchased	10,02,020	-
Cost to P/L	20,040	-

Source: Company, PL

Exhibit 4: Return ratios remain in track for +15% RoEs

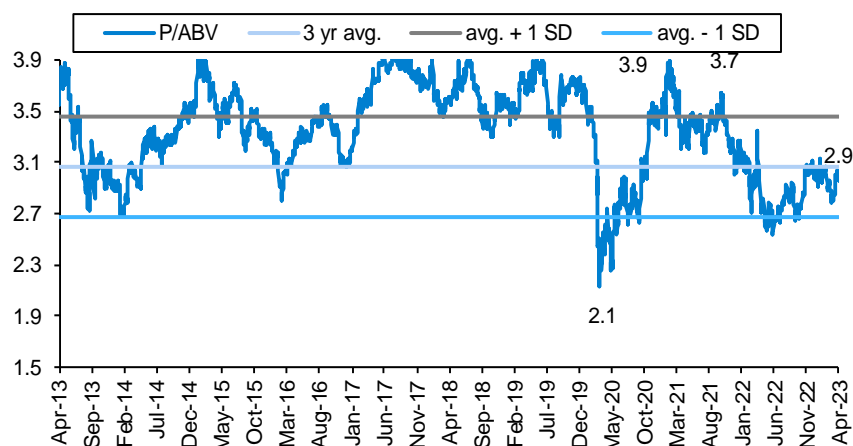
Percent (%)	FY22	FY22	FY22	FY23E	FY24E	FY25E
	HDFC Ltd	HDFCB	Merged	Merged	Merged	Merged
Yield on IEA	7.95	7.43	7.56	8.26	8.21	9.40
Cost of funds	5.68	3.47	3.97	4.56	5.39	5.82
NIM	3.10	4.19	3.93	4.00	3.91	4.03
Core other inc./assets	0.21	1.38	1.05	1.09	1.13	1.16
Cost/income	11.20	38.08	34.13	36.15	38.09	38.32
Opex/Avg.assets	0.31	1.97	1.55	1.67	1.79	1.87
Provision costs	0.37	1.20	0.96	0.66	0.73	0.72
Core RoA	1.76	1.82	1.78	1.91	1.79	1.87
Core RoE	15.09	15.88	16.17	16.90	15.48	16.52
RoA	2.27	1.94	1.97	1.97	1.86	1.94
RoE	12.00	16.66	15.30	15.42	14.87	15.75

Source: Company, PL

Exhibit 5: We arrive at SOTP based valuation of Rs.1925 on FY25E

Value per share (Rs)	Holding (%)	Multiple	Basis	Mar-25E
HDFC Bank		3.0x		1,778
Subsidiaries / Others				
Life insurance	51.0	1.0	M-Cap	76
AMC	52.6	1.0	Mcap	32
Financials	95.0	2.5x	Mar-22 PAT	27
Ergo	51.0	40x	Mar-22 PAT	14
HSL	96.0	10x	Mar-22 PAT	13
Bandhan Bank	5.0	1.0x	Mcap	2
HDFC Credila	10.0	2.5x	Mar-22 PAT	0
Total subsidiaries' value				163
% contribution of Subsidiaries				
				8
Hold –Co Discount		10%		16
Total fair value per share				1,925

Source: Company, PL

Exhibit 6: HDFCB's one year forward P/ABV trades at 2.9x


Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Int. Earned from Adv.	9,85,120	12,70,959	16,38,805	20,01,989
Int. Earned from invt.	2,60,461	3,13,112	3,80,310	4,48,686
Others	6,426	21,817	9,362	9,561
Total Interest Income	12,77,531	16,15,856	20,76,445	25,03,334
Interest Expenses	5,57,435	7,47,433	10,92,551	13,75,658
Net Interest Income	7,20,096	8,68,422	9,83,893	11,27,676
Growth(%)	12.7	16.3	16.3	14.7
Non Interest Income	2,95,099	3,12,148	3,88,695	4,47,329
Net Total Income	10,15,195	11,80,571	13,72,588	15,75,005
Growth(%)	7.7	22.6	27.9	19.7
Employee Expenses	1,20,317	1,55,124	1,82,681	2,04,581
Other Expenses	2,38,107	3,21,397	3,84,984	4,59,648
Operating Expenses	3,74,422	4,76,521	5,67,665	6,64,229
Operating Profit	6,40,773	7,04,050	8,04,924	9,10,776
Growth(%)	11.7	9.9	14.3	13.2
NPA Provision	1,01,194	1,37,250	1,41,909	1,62,631
Total Provisions	1,50,618	1,19,197	1,59,183	1,82,049
PBT	4,90,155	5,84,853	6,45,741	7,28,727
Tax Provision	1,20,541	1,43,766	1,62,727	1,83,639
Effective tax rate (%)	24.6	24.6	25.2	25.2
PAT	3,69,614	4,41,087	4,83,014	5,45,088
Growth(%)	18.8	19.3	9.5	12.9

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Face value	1	1	1	1
No. of equity shares	5,546	5,580	5,580	5,580
Equity	5,546	5,580	5,580	5,580
Networth	24,00,929	28,01,990	31,35,178	35,70,007
Growth(%)	17.9	16.7	11.9	13.9
Adj. Networth to NNPA's	44,077	43,206	56,423	64,984
Deposits	1,55,92,174	1,88,33,947	2,15,26,749	2,44,11,922
Growth(%)	16.8	20.8	14.3	13.4
CASA Deposits	75,10,491	83,59,890	91,52,436	1,04,56,916
% of total deposits	48.2	44.4	42.5	42.8
Total Liabilities	2,06,85,351	2,46,60,815	2,74,76,765	3,07,61,714
Net Advances	1,36,88,209	1,60,05,859	1,85,66,796	2,13,51,816
Growth(%)	20.8	16.9	16.0	15.0
Investments	45,55,357	51,70,014	56,95,978	62,68,981
Total Assets	2,06,85,351	2,46,60,815	2,74,76,765	3,07,61,714
Growth (%)	18.4	19.2	11.4	12.0

Asset Quality

Y/e Mar	FY22	FY23	FY24E	FY25E
Gross NPAs (Rs m)	1,61,410	1,79,010	2,26,348	2,60,694
Net NPAs (Rs m)	44,077	43,206	56,423	64,984
Gr. NPAs to Gross Adv.(%)	1.2	1.1	1.2	1.2
Net NPAs to Net Adv. (%)	0.3	0.3	0.3	0.3
NPA Coverage %	72.7	75.9	75.1	75.1

Profitability (%)

Y/e Mar	FY22	FY23	FY24E	FY25E
NIM	4.2	4.3	4.2	4.2
RoAA	1.9	1.9	1.9	1.9
RoAE	16.7	17.0	16.3	16.3
Tier I	17.9	17.8	17.3	17.1
CRAR	18.9	18.7	17.9	17.7

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Interest Income	3,51,720	3,85,864	4,27,078	4,51,194
Interest Expenses	1,56,906	1,75,652	1,97,199	2,17,675
Net Interest Income	1,94,814	2,10,212	2,29,878	2,33,518
YoY growth (%)	14.5	18.9	24.6	23.7
CEB	53,604	58,029	60,526	66,281
Treasury	-	-	-	-
Non Interest Income	63,882	75,956	84,998	87,312
Total Income	4,15,603	4,61,820	5,12,076	5,38,505
Employee Expenses	35,002	35,238	41,262	43,621
Other expenses	70,016	77,007	83,374	91,001
Operating Expenses	1,05,018	1,12,246	1,24,636	1,34,621
Operating Profit	1,53,678	1,73,922	1,90,241	1,86,209
YoY growth (%)	1.5	10.0	13.4	13.8
Core Operating Profits	1,66,795	1,76,453	1,87,627	1,86,586
NPA Provision	-	-	-	-
Others Provisions	31,877	32,401	28,064	26,854
Total Provisions	31,877	32,401	28,064	26,854
Profit Before Tax	1,21,801	1,41,520	1,62,176	1,59,355
Tax	29,841	35,463	39,581	38,881
PAT	91,960	1,06,058	1,22,595	1,20,475
YoY growth (%)	19.0	20.1	18.5	19.8
Deposits	1,60,47,600	1,67,34,080	1,73,32,040	1,88,33,947
YoY growth (%)	19.2	19.0	19.9	20.8
Advances	1,39,50,677	1,47,98,732	1,50,68,093	1,60,05,859
YoY growth (%)	21.6	23.4	19.5	16.9

Key Ratios

Y/e Mar	FY22	FY23	FY24E	FY25E
CMP (Rs)	1,672	1,672	1,672	1,672
EPS (Rs)	66.7	79.1	86.6	97.7
Book Value (Rs)	433	502	562	640
Adj. BV (70%)(Rs)	425	494	552	628
P/E (x)	25.1	21.2	19.3	17.1
P/BV (x)	3.9	3.3	3.0	2.6
P/ABV (x)	3.9	3.4	3.0	2.7
DPS (Rs)	6.5	15.4	17.3	19.5
Dividend Payout Ratio (%)	9.7	19.5	20.0	20.0
Dividend Yield (%)	0.4	0.9	1.0	1.2

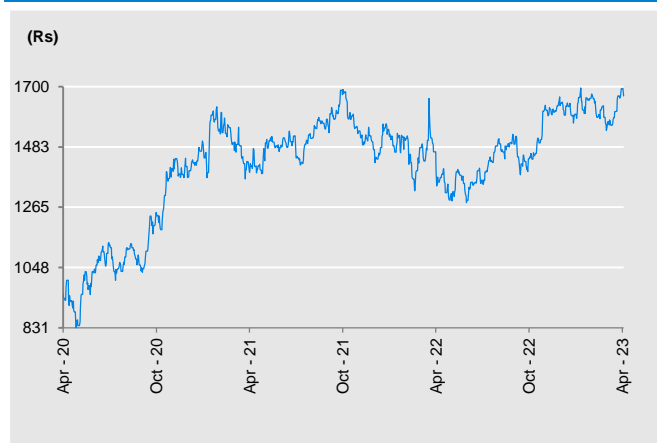
Efficiency

Y/e Mar	FY22	FY23	FY24E	FY25E
Cost-Income Ratio (%)	36.9	40.4	41.4	42.2
C-D Ratio (%)	87.8	85.0	86.2	87.5
Business per Emp. (Rs m)	207	201	215	231
Profit per Emp. (Rs lacs)	26	25	26	27
Business per Branch (Rs m)	4,617	4,455	4,396	4,391
Profit per Branch (Rs m)	58	56	53	52

Du-Pont

Y/e Mar	FY22	FY23	FY24E	FY25E
NII	3.77	3.83	3.77	3.87
Total Income	5.32	5.21	5.27	5.41
Operating Expenses	1.96	2.10	2.18	2.28
PPoP	3.36	3.11	3.09	3.13
Total provisions	0.79	0.53	0.61	0.63
RoAA	1.94	1.95	1.85	1.87
RoAE	16.66	16.96	16.27	16.26

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-23	BUY	1,925	1,692
2	11-Apr-23	BUY	1,850	1,658
3	14-Jan-23	BUY	1,850	1,601
4	05-Jan-23	BUY	1,800	1,600
5	16-Oct-22	BUY	1,800	1,439
6	05-Oct-22	BUY	1,800	1,454
7	16-Sep-22	BUY	1,800	1,521
8	17-Jul-22	BUY	1,740	1,362
9	08-Jul-22	BUY	1,740	1,396
10	06-Jul-22	BUY	1,740	1,371

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,200	1,675
2	Axis Bank	BUY	1,100	846
3	Bank of Baroda	BUY	220	166
4	Can Fin Homes	BUY	700	581
5	City Union Bank	BUY	190	160
6	DCB Bank	BUY	150	114
7	Federal Bank	BUY	175	127
8	HDFC	BUY	3,000	2,722
9	HDFC Asset Management Company	BUY	2,100	1,751
10	HDFC Bank	BUY	1,925	1,692
11	ICICI Bank	BUY	1,090	868
12	IDFC First Bank	UR	-	54
13	IndusInd Bank	BUY	1,500	1,069
14	Kotak Mahindra Bank	BUY	2,100	1,757
15	LIC Housing Finance	Accumulate	410	333
16	Punjab National Bank	UR	-	47
17	State Bank of India	BUY	730	526
18	UTI Asset Management Company	BUY	830	666

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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