

Integration benefits of merger to be seen
in coming quarters

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CMP: INR 1,678

Rating: Buy

Target Price: INR 1,819

Stock Info

BSE	500180
NSE	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO
Sector	Banks
Face Value (INR)	1
Equity Capital (INR Mn)	5590
Mkt Cap (INR Mn)	1,26,13,360
52w H/L (INR)	1,757 / 1,338
Avg Yearly Vol (in 000')	10,020

Shareholding Pattern %

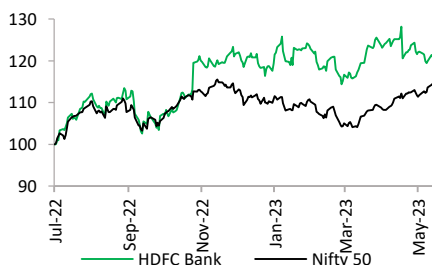
(As on March, 2023)

Promoters	25.52
Public & Others	74.48

Stock Performance (%)

	1m	6m	12m
HDFC Bank	4.3	4.0	24.0
Nifty 50	4.9	8.9	20.8

HDFC Bank Vs Nifty



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HDFC Bank during Q1FY24 has reported 30% YoY growth with a 0.8% sequential decline in net profit at INR 119.52 bn, which was in line with our estimate. NII growth for the quarter was at 21% YoY/1.1% QoQ to INR 236 bn. NIM of the bank was stable at 4.1% QoQ. Other income growth was at 44% YoY/5.7% QoQ to INR 92.3 bn. Core fee income of the bank increased by 17% YoY to INR 63 bn. PPOp grew by 22% YoY/0.8% QoQ to INR 187.72 bn. PPOp growth QoQ was on a lower side because the operating exps grew at higher rate as compared to operating income. Cost to income ratio of the bank increased by 80 bps QoQ to 42.8% on a sequential basis. Provision for the quarter declined by 10% YoY/ up 6.5% QoQ to INR 28.6 bn.

Margin were stable led by increase in yields: NIMs remained stable at 4.1% on a sequential basis. Yield on advances during the quarter increased by 20bps QoQ at 8.1% while cost of funds increased by 30bps QoQ at 4.0%.

Growth in advances is stable: Overall advances grew by 20.1% YoY (vs. 21.2% YoY in Q4FY23). Out of total advances, retail credit growth was at 18% YoY/6.7% QoQ. Commercial and rural banking portfolio increased by 29% YoY/ 2.1% QoQ. Within retail, Home loans grew by 23% YoY, LAP was up by 21% YoY, PL up by 19.5% YoY and payment products up by 12.8% YoY. Wholesale portfolio of the bank increased by 11% YoY and declined 1.2% QoQ.

Increase in Opex led by increase in Number of branches: Opex during the quarter came at INR 140.57 bn, which was up 33% YoY and 4.4% QoQ. This increase in opex is due to the increasing employee cost which came at INR 47.82 bn (up 36% YoY, up 9% QoQ). HDFC bank added 13 branches during the quarter, which led to the increase in the EE cost. Going forward, we might the opex rise from 4% to 8% during the second half of the FY24.

Asset Quality marginally decline driven by increase in slippage: GNPA ratio increased by 11bps respectively at 1.17% QoQ. In absolute term, Slippage (excluding agricultural segment) for the quarter came at INR 4,200 cr, whereas slippage for the agricultural segment came at INR 1,600 cr. The increase in GNPA was mainly due to slippages in agri segment. Slippages in agricultural segment was mainly due to seasonality factors.

Valuation & View: HDFC bank displayed an overall stable performance. NIMs of the bank was stable at 4.1% and expected to be remain the same. Going forward, the integration benefits of the merger of HDFC Ltd with HDFC bank is expected to be seen. We expect a good loan book growth with a proportionate increase in deposits. Further, the completion of merger positions HDFC bank for inclusion in MSCI global standard index. **We maintain our Buy rating on the stock with a revised target price of INR 1,819, based on 2.5x FY25E P/ABV.**

Financial Performance

Y/E Mar (INR Bn)	FY22	FY23	FY24E	FY25E
NII	720	868	1007	1237
Net profit	370	441	792	999
Networth	2401	2802	3380	4178
Adj BVPS	425	491	590	731
EPS (Rs)	67	79	142	179
P/ABV (x)	3.2	2.8	2.3	1.9
P/E (x)	20	17	10	8
RoA (%)	1.9	1.9	3.0	3.1
RoE (%)	16.7	17.0	25.6	26.4

Source: Arihant Research, Company Filings

Q1FY24 - Quarterly Performance (Standalone)

Particulars (INR in bn)	Q1FY24	Q1FY23	yoy (%)	Q4FY23	qoq (%)	FY23	FY22
Interest earned	485.87	351.72	38.14	451.19	7.69	1,615.86	1,277.53
- Interest/discount on advances /bills	380.08	274.02	38.70	356.43	6.64	1,270.96	985.12
- Income on investment	89.11	71.94	23.88	83.76	6.38	313.11	260.46
- Interest on bal. with RBI and other inter bank funds	7.92	2.96	167.30	3.09	156.55	9.97	25.52
- Others	8.76	2.80	212.83	7.91	10.65	21.82	6.43
Other Income	92.30	63.88	44.48	87.31	5.71	312.15	295.10
TOTAL INCOME	578.17	415.60	39.12	538.51	7.37	1,928.00	1,572.63
Interest expended	249.88	156.91	59.25	217.68	14.79	747.43	557.44
Operating expenses	140.57	105.02	33.85	134.62	4.42	476.52	374.42
- Employee Cost	47.82	35.00	36.62	43.62	9.63	155.12	120.32
- Other Operating Expenses	92.75	70.02	32.47	91.00	1.92	321.40	254.11
TOTAL EXPENDITURE	390.45	261.92	49.07	352.30	10.83	1,223.95	931.86
Provisions and Contingencies	28.60	31.88	(10.28)	26.85	6.50	119.20	150.62
Tax expense	39.60	29.84	32.71	38.88	1.86	143.77	120.54
PAT	119.52	91.96	29.97	120.47	(0.79)	441.09	369.61

Key Concall Highlights

- LCR for the quarter for bank was at 126%,. LCR on a performance basis, that is including the estimated HDFC limited book as of June 30, based on the merged entity was at over 120%.
- Capital adequacy ratio at 18.9%, and CET1 is at 16.2%.
- Net revenues for the quarter were at 32,829 crore, grew by 26.9% over prior year, driven by gross advances growth of 20% and deposit growth of 19%.
- Net interest income for the quarter at Rs. 23,599 crore, which is 72% of net revenues grew by 21% over prior year.
- The core net interest margin for the quarter was at 4.3%.
- Other miscellaneous income at 1079 crores includes the recovery from return of accounts and dividends from subsidiaries.
- Cost to income ratio for the quarter was at 42.8% The ratio will moderate after break-even and payback
- PPOP for the quarter grew by 22%. Our pre-provision operating profit was at 18,772 crores.
- Slippage ratio for the current quarter is at 35 basis points or about 5,800 crores. The slippage ratio for the current quarter excluding agricultural segment was at 26 basis points, about 4,200 crores.
- Asset quality : The GNPA ratio increased from 1.12% to 1.17% in the prior quarter, with 14 basis points standard. The core GNPA ratio is 1.03. The GNP ratio excluding NPS in the agricultural segment was 0.94 percent, while the net NPA ratio was 0.23 same as prior quarter.
- Annualized credit costs for the quarter was at 70 basis points. Prior quarter was 67 basis points and prior year was 91 basis points.
- Total credit cost ratio, net of recoveries was at 51 basis points in the current quarter, compared to 68 basis points in prior year and 44 basis points in prior quarter.

- Profit before tax: Standalone : PBT stood at 15,912 crores, grew by 30% over prior year, Consolidated : PBT stood at 16,590 crores, grew by 29% over prior year.
- Profit after tax : Standalone : PAT stood at 11,950 crores, grew by 30% over prior year, Consolidated : for the quarter at 12,372 crores, grew by 29% over prior year.
- ROA and ROE: Standalone : ROA and ROE for the quarter stood respectively at 3.2% and 19.4%, Consolidated : ROA and ROE for the quarter stood respectively at 3.2% and 17.3%.
 - Earnings per share : Standalone : EPS for the quarter stood at INR 21.4, Consolidated : EPS for the quarter stood at INR 22.2
- Book value per share : Standalone : BVPS for the quarter stood at INR 525.4, Consolidated : EPS for the quarter stood at INR 542.7

Provisions:

- Provisions reported increased from 2,700 to 2,850 crores in the previous quarter, with a PCR of 75%.
- Current contingent and floating provisions reached 11,150 crores.
- General provisions were 7,150 crores. These provisions accounted for 171% of gross non-performing loans and 1.12% of gross advances as of June end.

Write-offs :

- Write-offs in the quarter were 2,100 crores or approximately 14 basis points. • There was no sale of any empty accounts in the quarter.
- Restructuring under RBA resolution COVID framework costs 4,265 crores, with unstructured facilities costing 800 crores.

Loan book:

- The total loan book at the June end stood at 73,568 crores, growing 5.1% sequentially and 19% year on year.
- Secured loan comprises 72% of the total loan book.
- Investments for the quarter were higher by 42% over prior years.

Current Account deficit:

The current account deficit is at a seven-quarter low, and business activity is robust with 14% growth in RTGS, NESP transactions

Deposits:

- Deposits stood at INR 16,300 Bn , increased by 19% and 19% on YoY and QoQ basis respectively.
- The company's granular deposit growth reached 19.1 lakh crores, up 19.2% from previous years.
- Retail deposits added 38,000 crores, accounting for 83% of total deposits and grew 21.5% year-on-year and 2.4% sequentially.
- Wholesale deposits grew 9% year-on-year but were lower sequentially.

Advances:

- Advances stood at INR 16,300 Bn , increased by 16% and 17% on YoY and QoQ basis respectively.
- IBPC's nets increased by 20% year-on-year, with a credit to deposit ratio of 84%.
- Retail advances grew robustly, with domestic retail gaining 20% and 4% quarter-on-quarter.
- Commercial and rural banking continued to grow, while the wholesale segment grew 11%.
- IBPC's growth increased by 20.1%.

Distribution network:

- On the distribution side , 39 branches are added in this quarter and 1,482 branches over the last 12 months and 1,732 ATMs since last year, which now stands at 7,860 branches.
- SME businesses expanded to over 90% of districts.
- Gold loan processing is now offered in 4,336 branches an increase over June 22, a two-fold increase over June 22.
- In the medium to long term, distribution reach is the key.

Customer Base:

- Customer franchise building saw 2.4 million new liability relationships added.
- With over 85 million customers 29,000 people added in 12 months and 8,500 in this quarter, and 18.4 million cards issued.

Digital offerings :

- Website continues to receive enormous traffic with 109 million monthly visits, 42% growth year-on-year.
- 44% growth in UPI payments. Payment acceptance points reached 4.6 million, with 2.8 million merchants using the Smart Hub platform.
- Digital offerings gain market traction, 93% clients use company's platforms.

Key Financials

Profit & Loss Account

Particulars (INR in Bn)	FY21	FY22	FY23	FY24E	FY25E
Interest Earned	1209	1278	1616	1940	2368
Interest expended	560	557	747	933	1130
NII	649	720	868	1007	1237
Other Income	252	295	312	405	501
Net Income	901	1015	1181	1411	1738
Operating Exp	327	374	477	184	212
PPOP	574	641	704	1228	1526
Provisions	157	151	119	177	202
PBT	417	490	585	1050	1324
Tax	105	121	144	258	326
PAT	311	370	441	792	999

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Balance Sheet

Rs in Bn	FY21	FY22	FY23	FY24E	FY25E
CAPITAL & LIABILITIES					
Capital	5.5	5.5	5.6	5.6	5.6
Reserves & Surplus	2032	2395	2796	3374	4172
Deposits	13351	15592	18834	22234	26856
Borrowings	1355	1848	2068	2264	2502
Other Liabilities	726	844	957	1008	1067
TOTAL	17469	20685	24661	28886	34602
ASSETS					
Cash & Balances	1195	1523	1938	2054	2850
Investments	4437	4555	5170	6428	7630
Advances	11328	13688	16006	19401	23011
Fixed Assets	49	61	80	87	95
Other Assets	459	858	1467	917	1016
TOTAL	17469	20685	24661	28887	34602

Source: Arianth Research, Company Filings

Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
Growth					
NII	15.5	11.0	20.6	15.9	22.9
PPOP	17.7	11.7	9.9	74.4	24.3
Net profit	18.5	18.8	19.3	79.6	26.1
Deposits	16.3	16.8	20.8	18.1	20.8
Advances	14.0	20.8	16.9	21.2	18.6
Returns					
ROA	1.9	1.9	1.9	3.0	3.1
ROE	16.6	16.7	17.0	25.6	26.4
Efficiency					
C/I Ratio	36.3	36.9	40.4	13.0	12.2
CASA	46.1	48.2	49.6	52.2	53.9
Per Share					
BV (Rs)	370	433	502	606	749
ABV (Rs)	361	425	491	590	731
EPS (Rs)	56	67	79	142	179
Valuation					
P/BV (x)	3.7	3.2	2.7	2.3	1.8
P/ABV (x)	3.8	3.2	2.8	2.3	1.9
P/EPS (x)	24.2	20.5	17.3	9.6	7.6
Asset quality					
GNPA	1.3	1.2	1.2	1.4	1.3
NNPA	0.4	0.3	0.4	0.5	0.4
PCR	69.8	72.7	69.3	68.2	66.0

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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