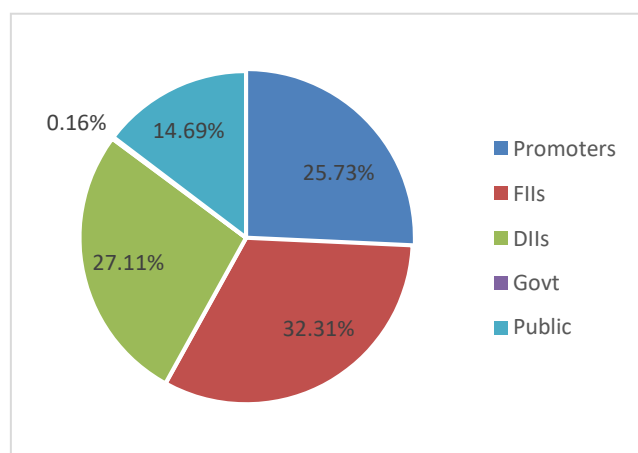


**VALUE PARAMETERS**

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**

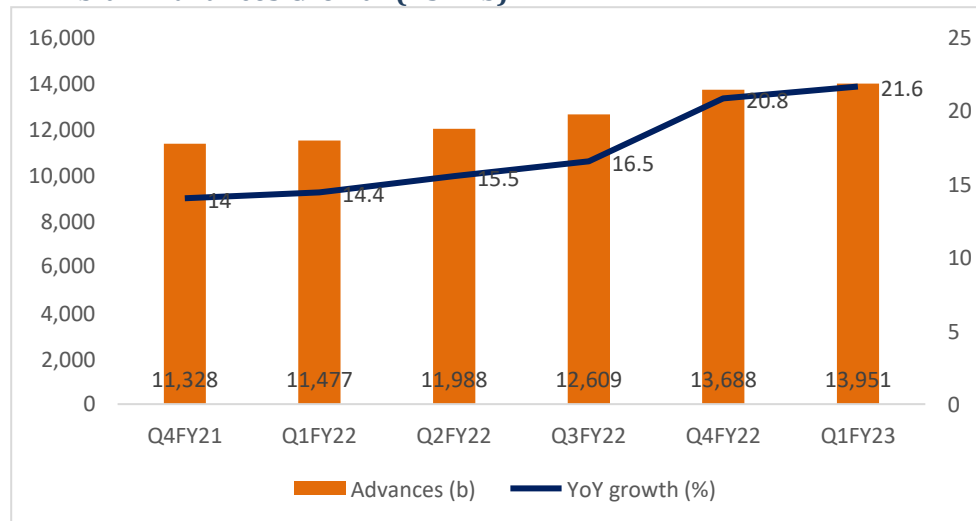
- Economic environment is improving after opening up the economy to its full potential after COVID. Vehicle loans and infra loans segment will see rise but high commodity prices, inflation and weakening of rupee are major growth concerns.
- Bank added 36 new branches during the quarter and 250 will be 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 cror

## 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)



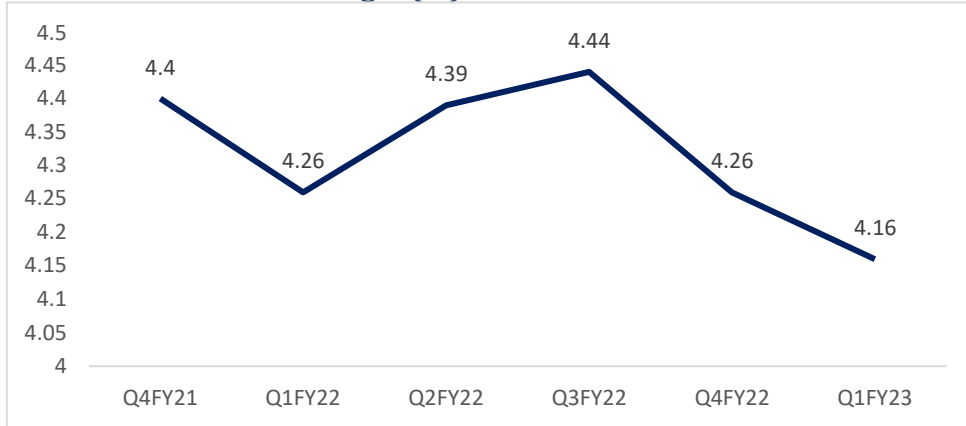
*Advances growth has been consistently strong in the last six quarters.*

### Exhibit 2: Slippages Ratio



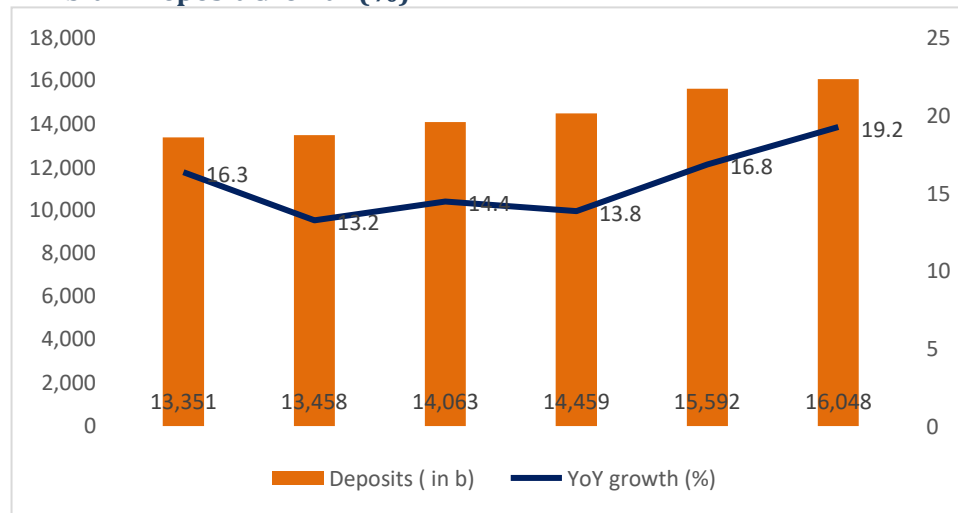
*Slippage ratio increased on sequential basis.*

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



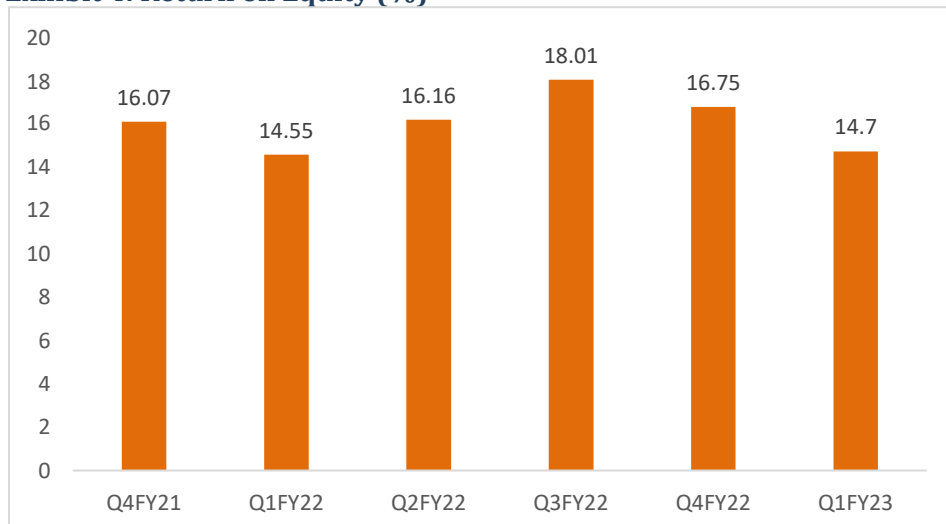
*Net Interest Margin declined sequentially.*

**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

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