

Decent numbers !!!

HDFC Bank's PAT came in at INR 119.5 bn, up by 30% yoy. Key highlights for the quarter were - 1) HDFC Bank's loan book growth was healthy at 15.7%. However, due to reduction in the non-individual loans of HDFC & net of IBPC, proforma merged loans grew by 13% yoy to INR 22451 bn 2) there was marginal drop in the margins 3) cost/income ratio surged by 220 bps on yoy basis led by higher investments in branches 4) rise in the slippages during the quarter led by increase in the agri slippages. Overall decent set of numbers. Merged entity is likely to do better on business growth side. Our outlook continues to be positive.

Outlook

- Advances growth for merged entity is expected to be 17-18% for FY24
- Margins is likely to be maintained at 3.9-4.1% levels post merger
- Branch network to increase to 12000 from current 7860 over the next 5 years time (~>800 branch addition each year)
- Asset quality outlook stable

Valuations - It is currently, trading at 3.0x/2.6x FY24e/FY25e ABV on ROE/ROA of 18%/2%. As per our calculations, post-merger, ROA is expected to remain stable at 1.9% levels which is in-line with the management guidance as well. **Retain our BUY rating on the stock with TP of INR 2061, upside of 23% from the current levels.** However, in our view, near term headwinds in the stock price wrt to merger is likely to persist.

Financial Summary

Y/E Mar (Rs Bn)	FY21	FY22	FY23E	FY24E	FY25E
NII	649	720	868	1017	1212
Net profit	311	370	423	510	617
Networth	2037	2401	2802	3191	3681
Adj BVPS	361	425	494	559	643
EPS (Rs)	56	67	76	91	111
P/ABV (x)	4.7	4.0	3.4	3.0	2.6
P/E (x)	30	25	22	18	15
RoA (%)	1.9	1.9	1.9	1.9	2.0
RoE (%)	16.6	16.7	16.3	17.0	18.0

Source: Company

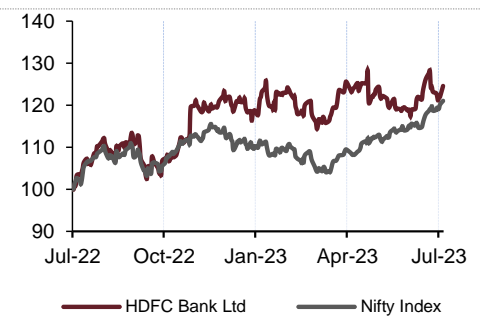
Rating	TP (Rs)	Up/Dn (%)
BUY	2,061	23

Market data

Current price	Rs	1,679
Market Cap (Rs.Bn)	(Rs Bn)	12,655
Market Cap (US\$ Mn)	(US\$ Mn)	1,54,008
Face Value	Rs	1
52 Weeks High/Low	Rs	1758 / 1337
Average Daily Volume	('000)	12,841
BSE Code		500180
Bloomberg		HDFCB.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	25.52	25.59
Public	74.48	74.41
Total	100	100

Source: Bloomberg

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Q1FY24 Concall Highlights

- **Proforma merged numbers** – Total advances of merged entity is lower at 16% which was mainly due to 18% reduction in HDFC's non-individual loans (~5% share). Bank's advances grew by ~20% yoy to INR 17053 bn (76% in total loans) and HDFC's individual loans 14% yoy to INR 5054 bn (22.5% share).
- Also, net of inter-bank participation certificates/bills rediscounted, merged entity loan growth gets further reduced down to 13% yoy to INR 22451 bn
- Importantly, mortgage loans share in total loans stood at 35% of total loans.
- On the liability side, proforma merged deposits showed a lower growth of 16% yoy vs. bank's growth of 19% yoy which again was largely due to 43% reduction in the HDFC's non-retail deposits (INR 397 bn, 2% share). Total deposits stands at INR 20651 bn. CASA ratio is at 39% and retail deposits mix at 83% on merged numbers.
- Going forward, the bank expects advances to grow by 17-18% for merged basis for FY24 period, which in our view, looks slightly aggressive in our view
- Management had also claimed that deposit accretion will be close to ~INR 1 trillion per quarter, which wasn't achieved in this quarter. However, given seasonally weak Q1, momentum should pick up from Q2 onwards.
- On the return ratios side, ROA is expected to be 1.9-2.1% post merger
- **Cross-sell benefits to HDFC customers** – It highlighted that HDFC home loan customers can be offered bank's asset products like personal loans, deposit products and other banking facilities.
- **Customer addition** - It added 3.9 mn new deposit customers taking total count to 85 mn. Also, its QR presence is currently in 1.7 lakh villages which is expected to touch 3 lacs villages
- LCR stood at 126% in Q1 vs. 116% in Q4FY23 (proforma LCR 120%)
- Cost/Income ratio has escalated over the last one year due to higher cost of investment in branches (~1400 branches added in the last one year). It is likely to take total branch count to 12000 over the next 5 years time
- Calculated margins came off by 10 bps on qoq basis – On sequential basis, rise in the cost of funds (+ 40 bps to 4.75%) was higher than the advances yields resulting in margin compression by 10 bps to 4.1% mark.

- Total other income growth was strong at 44.5% yoy to INR 92.3 bn which was led by good fee income growth and higher trading gains. Fee income grew by 17.3% yoy to INR 62.9 bn. As anticipated, trading income was higher at INR 5.5 bn vs. loss of INR 10.8 bn
- On the asset quality side, gross NPAs, in absolute terms, rose by 5.7% yoy/1.6% qoq to INR 190 bn; increase was largely due to rise in agri NPLs. In % terms, gross NPAs/Net NPAs stood at 1.17%/0.3% vs. 1.23%/0.3% in Q4FY23.
- Credit cost (annualized) for the quarter was at 70 bps vs. 67 bps qoq. Slippage ratio was at 35 bps in Q1. GNPA (excl agri loans) was at 0.9%. Incremental slippages were at INR 58 bn vs. INR 42 bn (ex agri slippages). There was no sale of NPAs during the quarter. And contingent provisions stands at INR 111.5 bn
- Integration cost of the merger is likely to be negligible

Key Financial Highlights

- **PAT for the quarter grew by 30% yoy to INR 119.5 bn led by healthy asset growth, higher trading gains, largely stable margins and asset quality**
- **Total advances recorded decent growth of 15.8% yoy and 7.2% qoq to INR 16156.7 bn. Net of inter-bank participation certificates/bills rediscounted, total advances reported growth of 20.1%.** Within this, domestic retail loans posted good growth of 20% yoy, commercial & rural banking grew by 29.1% yoy and corporate & other wholesale loans by 11.2% yoy. **In retail loans, growth was strong in segments like gold loans (32.7% yoy), home loans (23% yoy) and personal loans (19.5% yoy).**
- **Margins came off by 10 bps on qoq basis** - On sequential basis, rise in the cost of funds (+ 40 bps to 4.75%) was higher than the advances yields resulting in margin compression by 10 bps to 4.1% mark.
- **NII recorded growth of 21.1% yoy to INR 236 bn**
- **Total other income growth was strong at 44.5% yoy to INR 92.3 bn which was led by good fee income growth and higher trading gains.** Fee income grew by 17.3% yoy to INR 62.9 bn. As anticipated, trading income was higher at INR 5.5 bn vs. loss of INR 10.8 bn.
- **On the liability side, deposits growth continued to remain healthy at 19% yoy to INR 19131 bn.** Within this, retail deposits grew at higher rate of 20.7% yoy (which has 83% share in total deposits) and wholesale deposits by 12.6% yoy/10.4% qoq.

- **On the asset quality side, gross NPAs, in absolute terms, rose by 5.7% yoy/1.6% qoq to INR 190 bn.** In % terms, gross NPAs/Net NPAs stood at 1.17%/0.3% vs. 1.23%/0.3% in Q4FY23.
- The bank added 39 branches during the quarter taking total count to 7860. Cost/Income ratio increased marginally to 42.8% vs. 42% qoq led by higher opex growth (33.9% yoy and 4.4% qoq).

Outlook & Valuations

It is currently, trading at 3.0x/2.6x FY24e/FY25e ABV on ROE/ROA of 18%/2%. As per our calculations, post-merger, ROA is expected to remain stable at 1.9% levels which is in-line with the management guidance as well. **Retain our BUY rating on the stock with TP of INR 2061, upside of 23% from the current levels.** However, in our view, near term headwinds in the stock price wrt to merger is likely to persist.

HDFC Bank - SOTP

	Stake (%)	Valuation Methodology	Multiple (FY25e)	Value Per Share INR For HDFC
HDFC Bank - Parent		3.1 FY25e ABV	3.1	1994
HDB Financial Services	94.8%	2.25x FY25e ABV	2.25	58
HDFC Securities	95.6%	1.5x FY25e BV	1.5	9
Total Value				2061
CMP				1680
Upside				23%

Source: Dalal & Broacha Research, Company

Quarterly Financials (Q1FY24)

(in cr)	Q1FY24	Q1FY23	yoy (%)	Q4FY23	qoq (%)	FY23	FY22	yoy (%)
Interest earned	48586.8	35172.0	38.1	45119.4	7.7	161585.6	127753.1	26.5
Interest expenses	24987.7	15690.6	59.3	21767.5	14.8	74743.3	55743.5	34.1
Net Interest Income (NII)	23599.1	19481.4	21.1	23351.8	1.1	86842.2	72009.6	20.6
Other Income	9229.9	6388.2	44.5	8731.2	5.7	31214.8	29509.9	5.8
Total income	32828.9	25869.7	26.9	32083.0	2.3	118057.1	101519.5	16.3
Operating expenses	14056.9	10501.8	33.9	13462.1	4.4	47652.1	37442.2	27.3
Operating profit	18772.0	15367.8	22.2	18620.9	0.8	70405.0	64077.3	9.9
Provision for contingencies	2860.0	3187.7	-10.3	2685.4	6.5	11919.7	15061.8	-20.9
PBT	15912.0	12180.1	30.6	15935.5	-0.1	58485.3	49015.5	19.3
Provision for taxes	3960.2	2984.1	32.7	3888.1	1.9	14376.6	12054.1	19.3
Net profit	11951.8	9196.0	30.0	12047.5	-0.8	44108.7	36961.3	19.3
Equity	559.2	555.5	0.7	557.7	0.3	559.2	555.5	0.7
EPS	213.74	165.56	29.1	216.03	-1.1	788.81	665.42	18.5
Ratios (%)								
Int. exp/Int earned (%)	51.4	44.6	-	48.2	-	46.3	43.6	-
Cost/Income ratio (%)	42.8	40.6	-	42.0	-	40.4	36.9	-
Gross NPAs (Rs)	19064.1	18033.7	5.7	18763.9	1.6	19064.1	18033.7	5.7
Net NPAs (Rs)	4776.9	4887.7	-2.3	5024.3	-4.9	4776.9	4887.7	-2.3
Gross NPAs (%)	1.17	1.28	-	1.23	-	1.2	1.3	-
Net NPAs (%)	0.30	0.4	-	0.3	-	0.3	0.4	-
ROA (%)	0.5	0.5	-	0.6	-	1.5	1.5	-
CAR (%)	18.9	17.5	-	17.7	-	18.9	17.5	-
Balance Sheet (Rs.mn)								
Sources of Funds								
Deposits	19,13,096	16,04,760	19.2	17,33,204	10.4	19,13,096	16,04,760	19.2
Advances	16,15,672	13,95,068	15.8	15,06,809	7.2	16,15,672	13,95,068	15.8

Source: Dalal & Broacha Research, Company

Financials

Profit & Loss Account

Rs in Bn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Earned	990	1,148	1,209	1,278	1,616	1,944	2,320
Interest expense	507	586	560	557	747	927	1,108
NII	482	562	649	720	868	1,017	1,212
Other Income	176	233	252	295	289	384	456
Net Income	659	794	901	1,015	1,157	1,401	1,669
Operating Exp	261	307	327	374	477	567	666
PPOP	397	487	574	641	681	833	1,003
Provisions	76	121	157	151	119	157	184
PBT	322	366	417	490	562	676	818
Tax	111	103	105	121	138	166	201
PAT	211	263	311	370	423	510	617

Balance Sheet

Rs in Bn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
CAPITAL & LIABILITIES							
Capital	5.4	5.5	5.5	5.5	5.6	5.6	5.6
Reserves & Surpl	1,487	1,704	2,032	2,395	2,796	3,186	3,676
Deposits	9,231	11,475	13,351	15,592	18,834	21,874	25,474
Borrowings	1,171	1,446	1,355	1,848	2,068	2,316	2,640
Other Liabilities	551	674	726	844	957	1,093	1,230
TOTAL	12,445	15,305	17,469	20,685	24,661	28,474	33,025
ASSETS							
Cash & Balances	813	866	1,195	1,523	1,938	1,945	2,047
Investments	2,931	3,918	4,437	4,555	5,170	5,767	6,633
Advances	8,194	9,937	11,328	13,688	16,006	18,887	22,098
Fixed Assets	40	44	49	61	80	100	113
Other Assets	466	539	459	858	1,467	1,775	2,134
TOTAL	12,445	15,305	17,469	20,685	24,661	28,474	33,025

Ratios (%)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
NII	16.0	5.3	5.7	26.5	20.3	19.4
PPOP	22.6	17.7	11.7	6.2	22.4	20.4
Net profit	24.6	18.5	18.8	14.6	20.4	21.0
Deposits	24.3	16.3	16.8	20.8	16.1	16.5
Advances	21.3	14.0	20.8	16.9	18.0	17.0
Returns						
ROA	1.9	1.9	1.9	1.9	1.9	2.0
ROE	16.4	16.6	16.7	16.3	17.0	18.0
Efficiency						
C/I Ratio	38.6	36.3	36.9	41.2	40.5	39.9
CASA	42.2	46.1	48.2	44.4	42.5	40.8
Margins	4.2	4.1	3.9	4.1	4.1	4.2
CD ratio	87	85	88	85	86	87
Per Share						
No. of shares	5.5	5.5	5.5	5.6	5.6	5.6
FV	1	1	1	1	1	1
BV (Rs)	312	370	433	502	572	660
ABV (Rs)	305	361	425	494	559	643
P/BV (x)	5.4	4.5	3.9	3.3	2.9	2.5
P/ABV (x)	5.5	4.7	4.0	3.4	3.0	2.6
P/EPS (x)	35.1	29.8	25.2	22.1	18.4	15.2
Asset quality						
GNPAs (Rs)	126	151	161	180	261	285
NNPAs (Rs)	35	46	44	44	74	93
PCR (Rs)	91	105	117	137	187	192
GNPA (%)	1.3	1.3	1.2	1.1	1.4	1.3
NNPA (%)	0.4	0.4	0.3	0.3	0.4	0.4
PCR	72.0	69.8	72.7	78.6	71.6	67.4

Source: Dalal & Broacha Research, Company

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