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TP change	↓
Rating change	↔

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Bloomberg	HDFCB IN
Equity Shares (m)	5,546
M.Cap.(INRb)/(USDb)	7576.6 / 94.8
52-Week Range (INR)	1724 / 1272
1, 6, 12 Rel. Per (%)	2/0/-11
12M Avg Val (INR M)	11896

#### Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
NII	720	864	1,047
OP	641	740	893
NP	370	441	530
NIM (%)	3.9	4.0	4.2
EPS (INR)	66.8	79.5	95.6
EPS Gr. (%)	18	19	20
BV/Sh. (INR)	433	503	589
ABV/Sh. (INR)	421	488	571
<b>Ratios</b>			
RoE (%)	16.7	17.0	17.5
RoA (%)	1.9	2.0	2.0
<b>Valuations</b>			
P/E(X)	20.4	17.2	14.3
P/BV (X)	3.2	2.7	2.3
P/ABV (X)	3.2	2.8	2.4

#### Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	21.0	21.0	21.1
DII	22.2	20.1	17.6
FII	44.8	47.6	50.7
Others	12.0	11.3	10.7

FII Includes depository receipts

**CMP: INR1,364**      **TP: INR1,800 (+32%)**      **Buy**

### Earnings in line; treasury losses weigh on PPOP growth

#### Asset quality deteriorates slightly; restructured book declines to 76bp

- HDFCB reported a mixed 1QFY23, with an in line NII/PAT (up 15%/19% YoY), supported by lower provisions. However, PPOP growth fell sharply to 1.5% YoY, impacted by a treasury loss of INR13.1b. Core PPOP though grew healthy ~15% YoY.
- Business growth remains modest led by healthy traction in Retail and Commercial and Rural Banking while Corporate book saw flattish growth.
- Asset quality ratios deteriorated led by higher slippages (due to seasonal Agri NPAs), however, restructured book saw a sequential decline to ~76bp of loans (v/s 1.14% in 4QFY22). Healthy PCR of ~73% and a contingent provision buffer (69bp of loans) provides comfort on asset quality.
- We estimate ~20% PAT CAGR over FY22-24, with RoA/RoE at 2%/17.5% in FY24. HDFCB remains one of our preferred picks. We expect the stock to recover gradually as revenue and margin revives over FY23, while clarity emerges on several aspects related to the merger with HDFC.

#### Retail loans gain traction; margin flat QoQ at 4%

- NII grew 14.5% YoY v/s ~10% YoY in 4QFY22, with margin flat QoQ at 4%. NII was supported by higher growth in Retail loans. We expect margin to revive gradually in coming quarters.
- Other income was flat YoY at INR63.9b, impacted by a treasury loss of INR13b. Excluding trading income, other income rose 35.4% YoY (albeit on a benign base), fueled by higher fee income (up 38% YoY and a three-year CAGR of 15%).
- OPEX grew by ~29% YoY, with C/I ratio at 40.6% (core C/I ratio at 38.6%). PPOP grew 1.5% YoY. Core PPOP grew healthy ~15% YoY.
- Loans grew 21.6% YoY, led by robust 29% growth in Commercial and Rural loans and 22% jump in Retail loans. Wholesale loans grew 16% YoY. Retail loans sustained its strong recovery QoQ ~5%. Deposits rose by ~19% YoY, CASA grew by ~20%. CASA ratio moderated by 240bp QoQ to 45.8%.
- On the asset quality front, the GNPA/NNPA ratio increased by 11bp/3bp QoQ to 1.28%/0.35%, with slippages elevated ~INR72b (2.1% of loans). PCR stood stable ~73%. Restructured book fell to ~INR107.5b (76bp of loans) v/s 1.14% in 4QFY22. The bank carries contingent provisions of INR96.3b (69bp of loans) and additionally holds floating provisions of INR14.5b.
- Subsidiary performance:** Revenue/PAT for HDFC Securities fell 5%/25% YoY to INR4.3b/INR1.9b in 1QFY23. HDB Financial reported a marginal QoQ growth (~1%) in loans to INR618b, while revenue grew 13% YoY. PAT stood at INR4.4b v/s INR886m/INR4.3b in 1Q/4QFY22. GS-3 assets stood at 4.95% (down 5bp QoQ), while CAR/Tier I stood healthy at 20.3%/15.4%.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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**Highlights from the management commentary**

- On Wholesale advances, the bank let go of loans worth INR400-500b as the rates were less attractive.
- Cheque bounce rates remain lower than pre-COVID levels across all Retail products.
- Slippage stood at INR72b in 1QFY23 (50bp of loans not annualized). Excluding Agri and one-offs, slippages stood at 38bp of loans.
- Revolver rate is likely to increase gradually and revert back to pre-COVID levels over the course of time.

**Valuation and view**

HDFCB reported an in line NII and PAT, while PPOP and asset quality saw some blips due to higher treasury losses and slippages. Loan growth was driven by a sustained momentum in Retail segment, along with steady growth in Commercial and Rural Banking. Margin stood flat QoQ and is expected to improve gradually. Asset quality ratios have deteriorated marginally, while the restructured book moderated to 76bp of loans. Healthy PCR and a contingent provisioning buffer provide comfort on asset quality. We expect HDFCB to deliver ~20% PAT CAGR over FY22-24, with a RoA/RoE of 2%/17.5% in FY24. **We maintain our Buy rating with a TP of INR1,800 per share (premised on 3x FY24E ABV).** HDFCB remains among our preferred picks. We expect the stock to perform gradually as revenue and margin revive over FY23, while clarity emerges on several aspects related to the merger with HDFC.

**Quarterly performance****(INR b)**

	FY22				FY23E				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Net Interest Income</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>188.7</b>	<b>194.8</b>	<b>209.0</b>	<b>224.0</b>	<b>235.9</b>	<b>720.1</b>	<b>863.7</b>	<b>197.4</b>	<b>-1.3</b>
% Change (Y-o-Y)	8.6	12.1	13.0	10.2	14.5	18.2	21.4	25.0	11.0	19.9	16.1	
Other Income	62.9	74.0	81.8	76.4	63.9	79.8	89.1	103.7	295.1	336.4	71.3	-10.4
<b>Total Income</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>265.1</b>	<b>258.7</b>	<b>288.8</b>	<b>313.0</b>	<b>339.6</b>	<b>1,015.2</b>	<b>1,200.1</b>	<b>268.7</b>	<b>-3.7</b>
Operating Expenses	81.6	92.8	98.5	101.5	105.0	110.4	117.3	127.3	374.4	460.0	105.2	-0.2
<b>Operating Profit</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>163.6</b>	<b>153.7</b>	<b>178.4</b>	<b>195.7</b>	<b>212.3</b>	<b>640.8</b>	<b>740.1</b>	<b>163.5</b>	<b>-6.0</b>
% Change (Y-o-Y)	18.0	14.4	10.5	5.3	1.5	12.9	16.7	29.8	11.7	15.5	8.0	
Provisions	48.3	39.2	29.9	33.1	31.9	37.1	35.1	46.1	150.6	150.2	37.3	-14.6
<b>Profit before Tax</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>130.4</b>	<b>121.8</b>	<b>141.3</b>	<b>160.6</b>	<b>166.2</b>	<b>490.2</b>	<b>589.9</b>	<b>126.1</b>	<b>-3.4</b>
Tax	25.8	30.5	34.4	29.9	29.8	35.6	38.0	45.9	120.5	149.3	33.4	-10.6
<b>Net Profit</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>100.6</b>	<b>92.0</b>	<b>105.8</b>	<b>122.6</b>	<b>120.3</b>	<b>369.6</b>	<b>440.7</b>	<b>92.8</b>	<b>-0.9</b>
% Change (Y-o-Y)	16.1	17.6	18.1	22.8	19.0	19.7	18.6	19.7	18.8	19.2	20.0	
<b>Operating Parameters</b>												
Deposit	13,458	14,063	14,459	15,592	16,048	16,540	17,214	18,087	15,592	18,087	16,050	0.0
Loan	11,477	11,988	12,609	13,688	13,951	14,439	15,142	16,111	13,688	16,111	13,950	0.0
Deposit Growth (%)	13.2	14.4	13.8	16.8	19.2	17.6	19.1	16.0	16.8	16.0	19.3	0.0
Loan Growth (%)	14.4	15.5	16.5	20.8	21.6	20.4	20.1	17.7	20.8	17.7	21.6	0.0
<b>Asset Quality</b>												
Gross NPA (%)	1.5	1.4	1.3	1.2	1.3	1.3	1.3	1.2	1.2	1.2	1.2	0.1
Net NPA (%)	0.5	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.0
PCR (%)	67.9	70.9	70.8	72.7	72.9	73.0	73.5	72.3	72.7	72.3	72.5	0.4

## Quarterly snapshot

	FY21				FY22				FY23	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
<b>Profit &amp; Loss (INR b)</b>											
<b>Interest Income</b>	<b>303.8</b>	<b>299.8</b>	<b>300.8</b>	<b>304.2</b>	<b>304.8</b>	<b>313.5</b>	<b>324.7</b>	<b>334.5</b>	<b>351.7</b>	<b>15</b>	<b>5</b>
Loans	240.4	234.0	235.8	238.1	235.9	241.1	249.0	259.1	274.0	16	6
Investment	56.0	56.2	58.3	61.7	64.9	64.5	65.3	65.8	71.9	11	9
Others	7.4	9.5	6.7	4.5	4.0	7.9	10.5	9.6	5.8	45	-40
<b>Interest Expenses</b>	<b>147.1</b>	<b>142.0</b>	<b>137.6</b>	<b>133.0</b>	<b>134.7</b>	<b>136.7</b>	<b>140.2</b>	<b>145.8</b>	<b>156.9</b>	<b>16</b>	<b>8</b>
<b>Net Interest Income</b>	<b>156.7</b>	<b>157.8</b>	<b>163.2</b>	<b>171.2</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>188.7</b>	<b>194.8</b>	<b>15</b>	<b>3</b>
<b>Other Income</b>	<b>40.8</b>	<b>60.9</b>	<b>74.4</b>	<b>75.9</b>	<b>62.9</b>	<b>74.0</b>	<b>81.8</b>	<b>76.4</b>	<b>63.9</b>	<b>2</b>	<b>-16</b>
Trading profit	10.9	10.2	11.1	6.6	6.0	6.8	10.5	-0.4	-13.1	NM	NM
Exchange Profit	4.4	5.6	5.6	8.8	12.0	8.7	9.5	8.9	12.6	5	41
Others (excl. non-core)	25.5	45.2	57.7	60.6	44.9	58.6	61.9	67.8	64.4	43	-5
<b>Total Income</b>	<b>197.4</b>	<b>218.7</b>	<b>237.6</b>	<b>247.1</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>265.1</b>	<b>258.7</b>	<b>11</b>	<b>-2</b>
<b>Operating Expenses</b>	<b>69.1</b>	<b>80.6</b>	<b>85.7</b>	<b>91.8</b>	<b>81.6</b>	<b>92.8</b>	<b>98.5</b>	<b>101.5</b>	<b>105.0</b>	<b>29</b>	<b>3</b>
Employee	25.1	25.4	26.3	26.8	27.7	29.7	31.5	31.4	35.0	27	11
Others	44.0	55.1	59.4	65.0	53.9	63.1	67.0	70.1	70.0	30	0
<b>Operating Profit</b>	<b>128.3</b>	<b>138.1</b>	<b>151.9</b>	<b>155.3</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>163.6</b>	<b>153.7</b>	<b>2</b>	<b>-6</b>
<b>Core Operating Profit</b>	<b>117.4</b>	<b>128.0</b>	<b>140.8</b>	<b>148.8</b>	<b>145.4</b>	<b>151.3</b>	<b>157.3</b>	<b>164.0</b>	<b>166.8</b>	<b>15</b>	<b>2</b>
Provisions	38.9	37.0	34.1	46.9	48.3	39.2	29.9	33.1	31.9	-34	-4
<b>PBT</b>	<b>89.4</b>	<b>101.1</b>	<b>117.7</b>	<b>108.4</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>130.4</b>	<b>121.8</b>	<b>18</b>	<b>-7</b>
Taxes	22.8	26.0	30.1	26.5	25.8	30.5	34.4	29.9	29.8	16	0
<b>PAT</b>	<b>66.6</b>	<b>75.1</b>	<b>87.6</b>	<b>81.9</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>100.6</b>	<b>92.0</b>	<b>19</b>	<b>-9</b>
<b>Balance Sheet (INR b)</b>											
Deposits	11,894	12,293	12,711	13,351	13,458	14,063	14,459	15,592	16,048	19	3
Loans	10,033	10,383	10,823	11,328	11,477	11,988	12,609	13,688	13,951	22	2
<b>Asset Quality (INR b)</b>											
GNPA	137.7	113.0	88.3	150.9	171.0	163.5	160.1	161.4	180.3	5	12
NNPA	32.8	17.6	10.2	45.5	54.9	47.6	46.8	44.1	48.9	-11	11
<b>Ratios</b>											
<b>Asset Quality Ratios (%)</b>											
GNPA	1.4	1.1	0.8	1.3	1.5	1.4	1.3	1.2	1.3	-19	11
NNPA	0.3	0.2	0.1	0.4	0.5	0.4	0.4	0.3	0.4	-13	3
PCR (Calc.)	76.2	84.5	88.5	69.8	67.9	70.9	70.8	72.7	72.9	498	20
Slippage	1.2	2.0	1.9	1.7	2.5	1.8	1.6	1.3	0.0	-254	-127
<b>Business Ratios (%)</b>											
Fees-to-Total Income	12.9	20.6	24.3	24.5	19.3	23.4	23.2	25.6	24.9	563	-70
Cost-to-Core Income	37.1	38.6	37.9	38.2	36.0	38.0	38.5	38.2	38.6	268	40
Tax Rate	25.5	25.7	25.6	24.5	25.0	25.7	25.0	22.9	24.5	-50	158
CASA (Reported)	40.1	41.6	43.0	46.1	45.5	46.8	47.1	48.2	45.8	30	-240
Loan/Deposit	84.4	84.5	85.1	84.9	85.3	85.2	87.2	87.8	86.9	166	-86
<b>Profitability Ratios (%)</b>											
Yield on loans	9.6	9.2	8.9	8.6	8.3	8.2	8.1	7.9	7.9	-34	5
Yield On Investments	5.8	5.7	5.6	5.7	5.9	6.1	6.2	6.0	6.0	14	6
Yield on funds	8.8	8.5	8.2	7.9	7.7	7.8	7.9	7.6	7.6	-14	-6
Cost of funds	4.5	4.3	4.0	3.7	3.7	3.6	3.5	3.4	3.6	-9	11
Spreads	4.2	4.2	4.2	4.2	4.1	4.2	4.4	4.2	4.0	-5	-17
Margin	4.3	4.1	4.2	4.2	4.1	4.1	4.1	4.0	4.0	-10	0
RoA	1.8	1.9	2.2	2.0	1.8	2.0	2.2	2.1	1.8	4	-24
RoE	15.3	16.5	18.4	16.4	14.9	16.4	18.5	17.1	15.0	15	-212
<b>Other Details</b>											
Branches	5,326	5,430	5,485	5,608	5,653	5,686	5,779	6,342	6,378	725	36
ATMs	14,996	15,292	15,541	16,087	16,291	16,642	17,238	18,310	18,620	2,329	310
Employees	115,822	117,082	117,560	120,093	123,473	129,341	134,412	141,579	152,511	29,038	10,932



## Highlights from the management commentary

### Opening remarks

- Economic activity continues to hold up, despite a challenging environment.
- It added 36 branches in 1QFY23, and 250 branches are ready to be rolled out.
- The bank has ~3.2m payment acceptances, which grew 42% YoY.
- SME loans are now being offered in 640 districts.
- It added ~10.9k/~29k employees in 1Q/FY23.
- The bank added 2.6m new liability relationships in 1QFY23, which grew 59% YoY and 10% QoQ.
- HDFCB added ~0.2m MSE accounts on the liability side.
- It added 1.2m new Credit Cards in 1QFY23 – the highest ever and up 47% YoY.
- Cards spends grew 25% QoQ in 1QFY23.
- The bank plans to launch new apps and digital initiatives in Jul'22 and 2QFY23.

### P&L and Balance Sheet related

- On Wholesale advances, the bank let go of loans worth INR400-500b as the rates were less attractive.
- The average LCR ratio stands at 108%, while it stood at 120% in Jun'22.
- Retail deposits grew 19% YoY and 3.9% QoQ.
- The reset period for most loans will be three months.
- AFS book largely comprises of G-Sec, Corporate bonds, and PSLCs.
- The bank holds an Investment Fluctuation Reserve (IFR) of ~2%, which can be utilized for providing against MTM losses. However, the bank did not use any such reserves in 1QFY23.
- Revolver rate is likely to rise gradually and revert back to pre-COVID levels over the course of time.
- Loan mix: Floating rate loans stood at 55% (of which 27-28%/13% are Repo/T-Bill), while the fixed loan book is 46%.
- Technology-related spends is likely to be 8-9% of total OPEX.

### Asset quality related

- Agri saw a seasonal impact in Jun'22, and thus GNPA stood elevated in 1QFY23.
- Slippages stood at INR72b in 1QFY23 (50bp of loans not annualized). Excluding Agri and one-offs, slippages stood at 38bp of loans.
- Recoveries and upgrades stood at INR30b (22bp of loans). Write-offs stood at INR24b (17bp of loans).
- Cheque bounce rates remain lower than pre-COVID levels across all Retail products.
- Restructuring book stood at INR107.5b (76bp of loans). Other additional facilities of these borrowers stood at INR18.5b (13bp of loans). Total exposure stood at INR126b (89bp of loans).

### Subsidiary performance – HDB Financial Services

- The uptick in disbursements in Mar'22 sustained in Jun'22 as well.

**Loan growth healthy at 21.6% YoY; the momentum in Retail book continues**

- Loan book grew a healthy 21.6% YoY and 1.9% QoQ to ~INR13.9t. Deposits rose 19.2% YoY and 2.9% QoQ to ~INR16t. The CD ratio stood ~87% v/s 87.8% in 4QFY22.
- As per its internal classification, Retail loans grew 21.7% YoY and 4.9% QoQ, Commercial and Rural Banking rose 28.9% YoY and 2.7% QoQ, and Wholesale advances increased by 15.7% YoY (flat QoQ).
- The share of Retail loans grew to 39.6%.
- Home loans/LAP grew 6.3%/4.6% QoQ. Personal loans/Credit Card book rose 5.6%/4.4% and Gold loans grew 5.5% QoQ.
- Auto loans grew 13.2% YoY and 3.5% QoQ. 2W loans fell 3.5% YoY and 1% QoQ.

**Exhibit 1: Share of Retail loans stood at 39.6% in 1QFY23**

INR b	1QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	As a percentage of total
Auto loans	919.1	1,004.6	1,040.0	13.2	3.5	7.4
Two-Wheeler loans	95.3	92.9	92.0	-3.5	-1.0	0.7
Personal loans	1,204.7	1,401.3	1,479.3	22.8	5.6	10.5
Payment products	630.9	767.6	801.4	27.0	4.4	5.7
Home loans	722.4	830.6	882.5	22.2	6.3	6.3
Gold loans	82.1	83.5	88.1	7.2	5.5	0.6
LAP	517.0	622.5	651.2	26.0	4.6	4.6
Other Retail	411.4	514.8	544.4	32.3	5.8	3.9
<b>Retail total</b>	<b>4,582.8</b>	<b>5,317.7</b>	<b>5,578.8</b>	<b>21.7</b>	<b>4.9</b>	<b>39.6</b>
Commercial and Rural Banking	3,362.3	4,201.9	4,364.9	29.8	3.9	31.0
Agriculture	501.1	645.5	615.8	22.9	-4.6	4.4
Corporate and other wholesale	3,146.2	3,640.1	3,639.4	15.7	0.0	25.8
<b>Total loans</b>	<b>11,592.3</b>	<b>13,805.2</b>	<b>14,081.8</b>	<b>21.5</b>	<b>2.0</b>	<b>100.0</b>

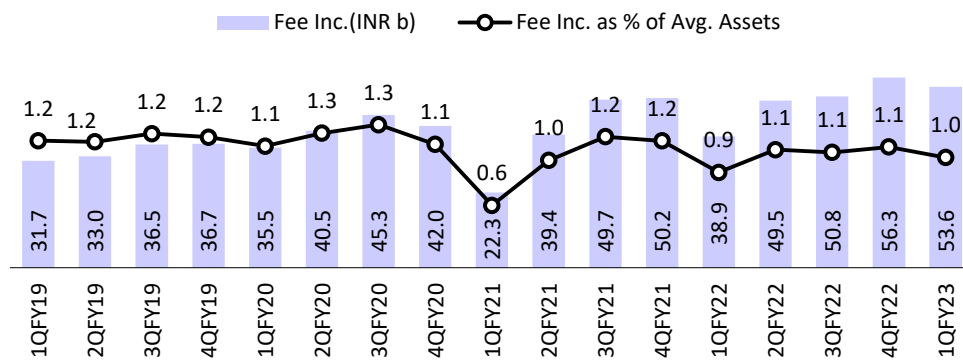
CASA/term deposits grew by ~20%/~19% YoY

**NIM stood flat QoQ at 4%, CASA ratio moderates to 45.8%**

- Reported NIM stood flat QoQ at 4%.
- CASA deposits grew 20% YoY (but fell 2.2% QoQ), driven by 20.6% YoY and 0.5% QoQ growth in SA deposits. CA deposits grew 18.8% YoY (but fell 7.8% QoQ).
- Term deposits grew 18.5% YoY and 7.7% QoQ, resulting in the CASA ratio moderating to 45.8% v/s 48.2% in 4QFY22.

**Healthy growth in fee income, fee income-to-average assets ratio at 1%**

- Core fee income grew 38% YoY (but fell 4.8% QoQ; three-year CAGR at 15%) to INR53.6b, aided by a pick-up in loan growth and an improvement in Retail growth. Fee income-to-average assets ratio stood at 1% in 1QFY23.
- Total other income was flat YoY (down 16.4% QoQ), impacted by a treasury loss of INR13.1b. Excluding trading income, other income grew 35% YoY.
- Overall OPEX grew 28.7% YoY and 3.4% QoQ. The cost-to-core income ratio grew 40bp QoQ to 38.4%. C/I ratio increased by 230bp QoQ to 40.6%.

**Exhibit 2: Fee income-to-assets ratio (%) stood at 1%**

Source: MOFSL, Company

PCR stable ~73% in 1QFY23

**Asset quality ratios deteriorate, contingent provisions provide comfort**

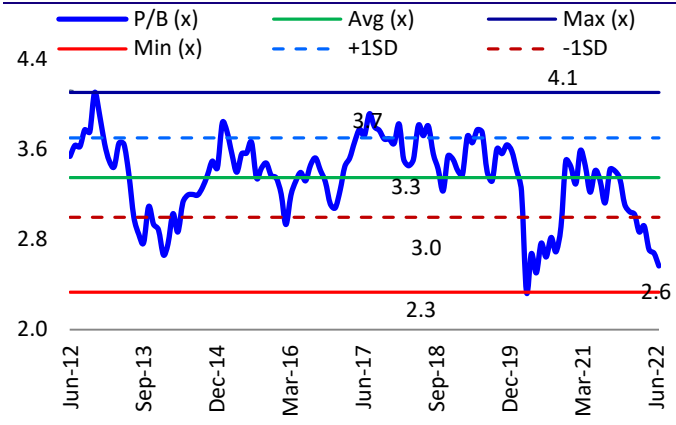
- Asset quality deteriorated sequentially, with GNPA/NNPA ratio up 11bp/3bp QoQ to 1.28%/0.35%, led by elevated slippages (2.1%). The coverage ratio stood stable ~73%. Absolute GNPA/NNPA grew 12%/11% QoQ to NR180.3t/INR48.9b.
- The bank continues to carry a floating provision of INR14.5b and holds a contingent provision of INR96.3b.
- Total restructuring under the RBI resolution framework for COVID-related stress moderated to ~INR107.5b (76bp of loans) from ~INR157b (~1.14% of loans).

**Valuation and view**

- HDFCB delivered a healthy growth in advances in 1QFY23, led by strong sequential trends in Retail loans. Growth was also led by robust trends in Commercial and Rural Banking, while Wholesale advances saw muted trends. We expect loan growth to stay healthy and estimate 18% loan CAGR over FY22-24. Deposit growth remains strong, led by CASA, which should support the margin trajectory.
- We expect the momentum in the bank's fee income to stay healthy. Strong cost control, led by further digitalization, is likely to drive an overall improvement in return ratios. Margin stood stale QoQ, though we expect a gradual increase in margin on: a) rising interest rates, b) lower cost of funds as well as a strong and granular liability franchise, and c) higher Retail loan growth.
- Strong capitalization and liquidity levels should help HDFCB sustain its growth momentum over the next few years. This makes the bank better placed to tide over the crisis and gain incremental market share.
- Asset quality deteriorated over 1QFY23, led by higher slippages. GNPA/NNPA grew to 1.28%/0.35%. Restructuring book fell to ~INR107.5b (76bp of loans). PCR stood stable ~73%, which, along with a floating provision of INR14.5b and contingent provision of INR96.3b, will keep credit cost in check and limit the impact on profitability. We expect NNPA to remain at 0.3% in FY22-24.
- **Buy with a TP of INR1,800 per share:** HDFCB reported an in line NII and PAT, while PPOP and asset quality saw some blips due to higher treasury losses and slippages. Loan growth was driven by a sustained momentum in Retail segment, along with steady growth in Commercial and Rural Banking. Margin stood flat QoQ and is expected to improve gradually. Asset quality ratios have deteriorated marginally, while the restructured book moderated to 76bp of

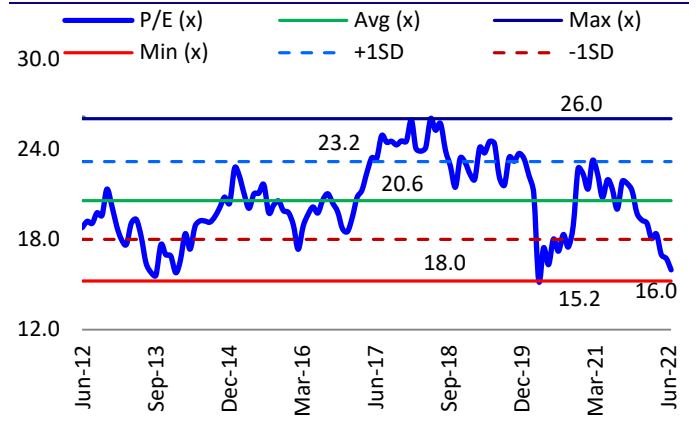
loans. Healthy PCR and a contingent provisioning buffer provide comfort on asset quality. We expect HDFCB to deliver ~20% PAT CAGR over FY22-24, with a RoA/RoE of 2%/17.5% in FY24. **We maintain our Buy rating with a TP of INR1,800 per share (premised on 3x FY24E ABV).** HDFCB remains among our preferred picks. We expect the stock to perform gradually as revenue and margin revive over FY23, while clarity emerges on several aspects related to the merger with HDFC.

**Exhibit 3: One-year forward P/B ratio**



Source: MOFSL, Company

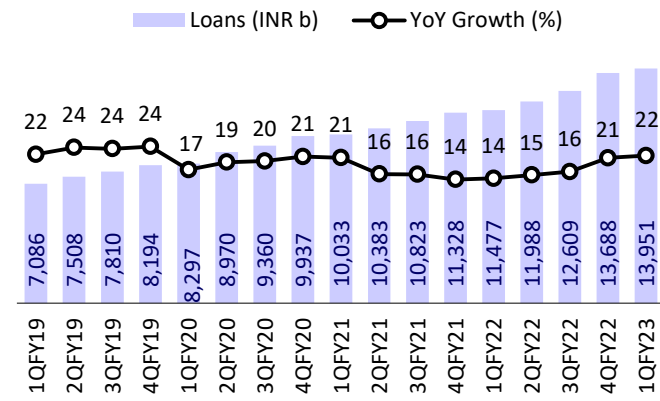
**Exhibit 4: One-year forward P/E ratio**



Source: MOFSL, Company

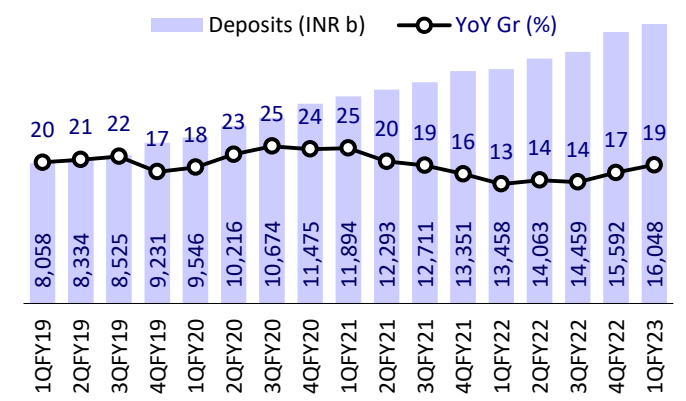
## Story in charts

**Exhibit 5: Loan book grew by ~21.6% YoY and 1.9% QoQ in 1QFY23**



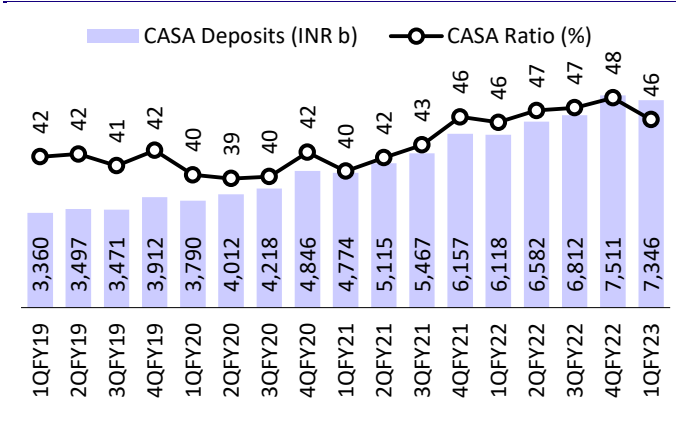
Source: MOFSL, Company

**Exhibit 6: Deposits strong at 19.2% YoY and 2.9% QoQ in 1QFY23**



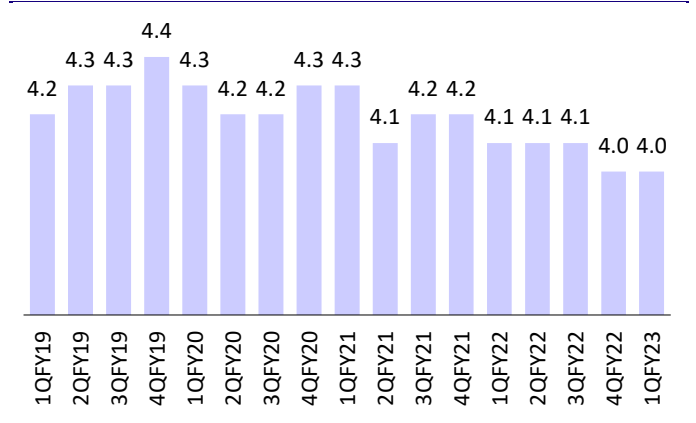
Source: MOFSL, Company

**Exhibit 7: CASA ratio moderates by 240bp QoQ to 45.8% in 1QFY23**



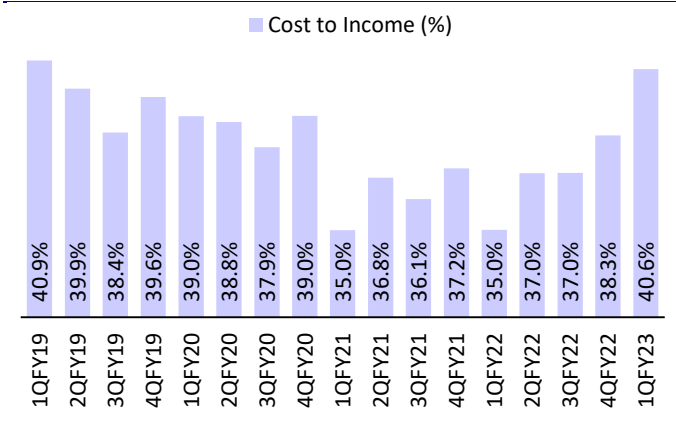
Source: MOFSL, Company

**Exhibit 8: NIM stable QoQ at 4% in 1QFY23**



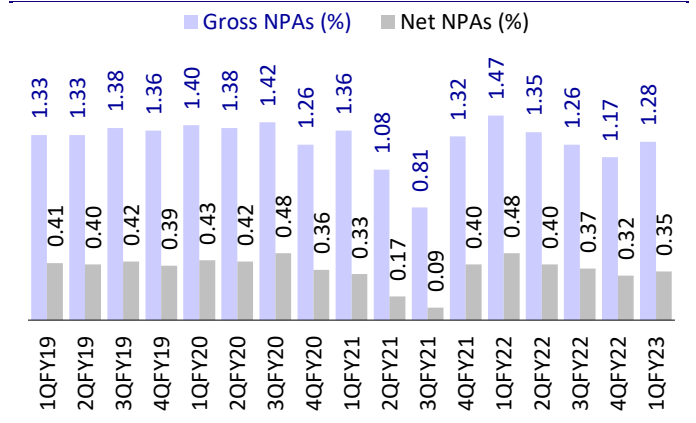
Source: MOFSL, Company

**Exhibit 9: C/I ratio increases to 40.6% in 1QFY23**



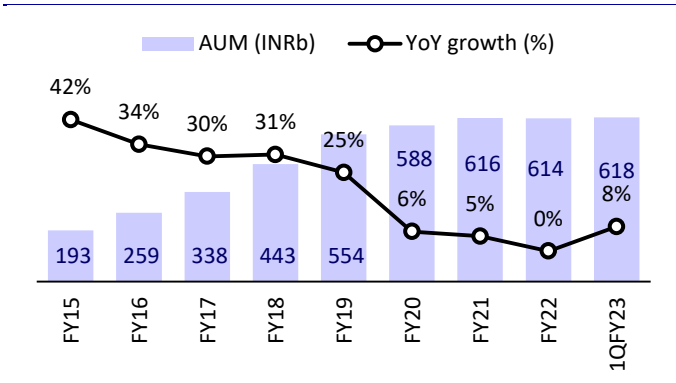
Source: MOFSL, Company

**Exhibit 10: GNPA/NNPA grew 11bp/3bp to 1.28%/0.35%; PCR stable ~73%**



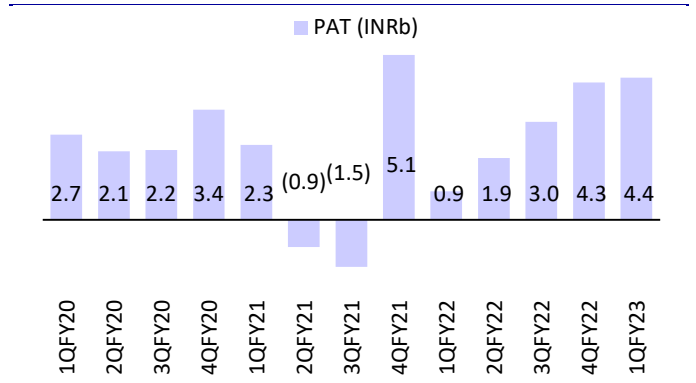
Source: MOFSL, Company

**Exhibit 11: AUM for HDB Financial grew 8% YoY in 1QFY23**



Source: MOFSL, Company

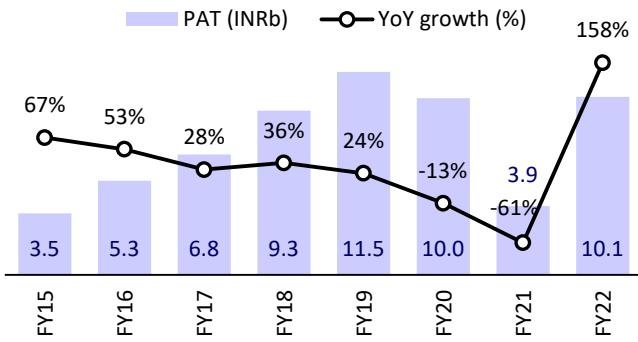
**Exhibit 12: HDB Financial posted a PAT of INR4.4b in 1QFY23**



Source: MOFSL, Company

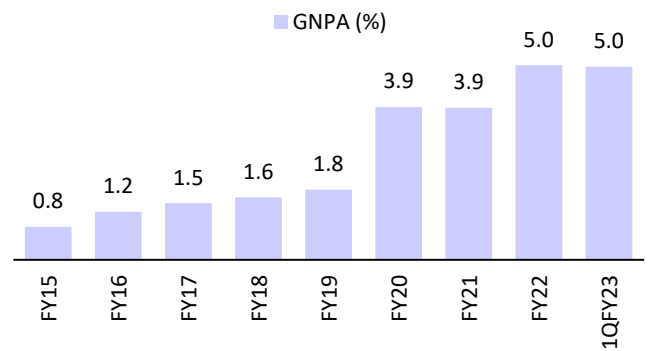


**Exhibit 13: PAT for HDB Financial grew 158% YoY in FY22**



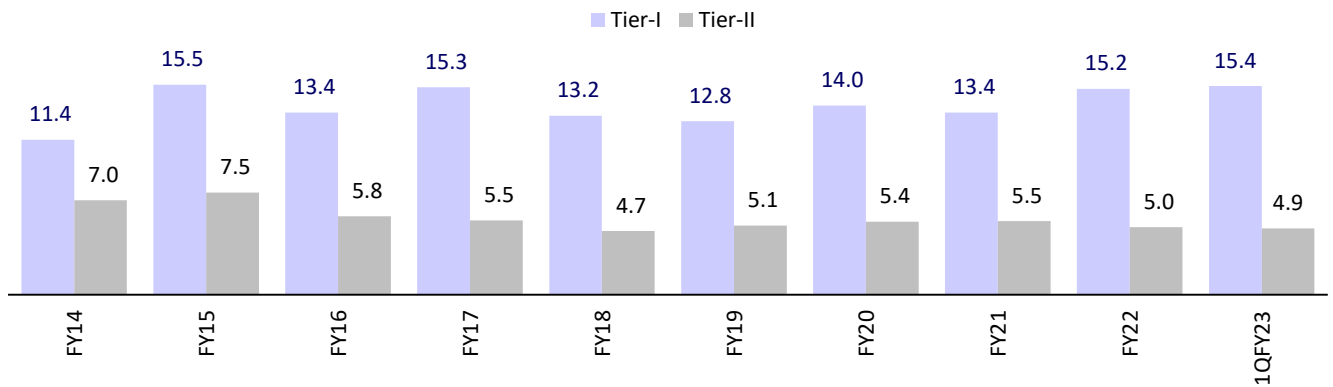
Source: MOFSL, Company

**Exhibit 14: GNPA ratio improves by 5bp QoQ to 4.95% in 1QFY23**



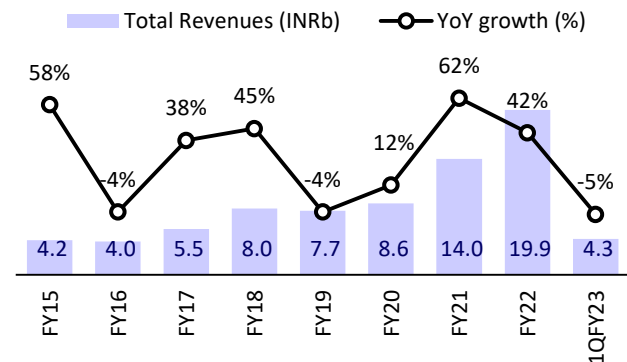
Source: MOFSL, Company

**Exhibit 15: Strong capitalization levels for HDB Financial, with a total CAR of 20.3%**



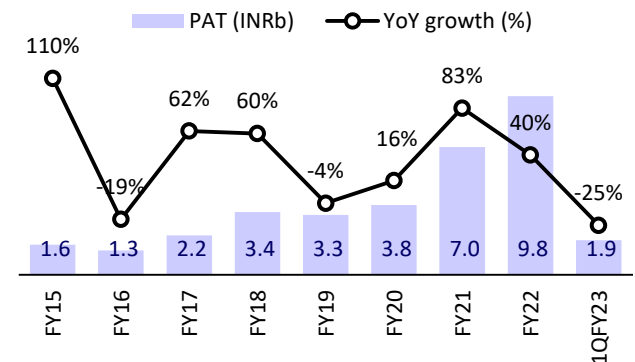
Source: MOFSL, Company

**Exhibit 16: Total income from HDFC Securities fell 5%...**



Source: MOFSL, Company

**Exhibit 17: ...with PAT down 25% YoY to INR1.9b in 1QFY23**



Source: MOFSL, Company

**Exhibit 18: DuPont Analysis – Return ratios to steadily improve**

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	8.81	8.32	8.57	8.27	7.38	6.70	7.38	7.68
Interest Expense	4.60	4.17	4.40	4.23	3.42	2.92	3.50	3.65
<b>Net Interest Income</b>	<b>4.21</b>	<b>4.16</b>	<b>4.18</b>	<b>4.05</b>	<b>3.96</b>	<b>3.77</b>	<b>3.87</b>	<b>4.03</b>
Core Fee Income	1.12	1.31	1.34	1.38	1.15	1.22	1.19	1.20
Trading and others	0.44	0.27	0.19	0.30	0.39	0.33	0.32	0.31
<b>Non-Interest income</b>	<b>1.56</b>	<b>1.58</b>	<b>1.53</b>	<b>1.68</b>	<b>1.54</b>	<b>1.55</b>	<b>1.51</b>	<b>1.52</b>
<b>Total Income</b>	<b>5.33</b>	<b>5.74</b>	<b>5.71</b>	<b>5.73</b>	<b>5.50</b>	<b>5.32</b>	<b>5.38</b>	<b>5.55</b>
<b>Operating Expenses</b>	<b>2.51</b>	<b>2.35</b>	<b>2.26</b>	<b>2.21</b>	<b>2.00</b>	<b>1.96</b>	<b>2.06</b>	<b>2.11</b>
Employee cost	0.82	0.71	0.67	0.69	0.63	0.63	0.65	0.68
Others	1.68	1.65	1.59	1.53	1.36	1.33	1.42	1.43
<b>Operating Profit</b>	<b>3.27</b>	<b>3.38</b>	<b>3.44</b>	<b>3.51</b>	<b>3.50</b>	<b>3.36</b>	<b>3.32</b>	<b>3.44</b>
<b>Core operating Profit</b>	<b>2.83</b>	<b>3.11</b>	<b>3.26</b>	<b>3.22</b>	<b>3.11</b>	<b>3.03</b>	<b>3.00</b>	<b>3.13</b>
<b>Provisions</b>	<b>0.46</b>	<b>0.61</b>	<b>0.65</b>	<b>0.88</b>	<b>0.96</b>	<b>0.79</b>	<b>0.67</b>	<b>0.71</b>
<b>PBT</b>	<b>2.82</b>	<b>2.77</b>	<b>2.79</b>	<b>2.64</b>	<b>2.54</b>	<b>2.57</b>	<b>2.65</b>	<b>2.73</b>
Tax	0.97	0.96	0.96	0.75	0.64	0.63	0.67	0.69
<b>RoA</b>	<b>1.85</b>	<b>1.81</b>	<b>1.83</b>	<b>1.89</b>	<b>1.90</b>	<b>1.94</b>	<b>1.98</b>	<b>2.04</b>
Leverage (x)	9.7	9.8	9.0	8.7	8.7	8.6	8.6	8.6
<b>RoE</b>	<b>17.9</b>	<b>17.9</b>	<b>16.5</b>	<b>16.4</b>	<b>16.6</b>	<b>16.7</b>	<b>17.0</b>	<b>17.5</b>

## Financials and valuations

### Income Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	802.4	989.7	1,148.1	1,208.6	1,277.5	1,644.8	1,993.5
Interest Expense	401.5	507.3	586.3	559.8	557.4	781.2	946.6
<b>Net Interest Income</b>	<b>400.9</b>	<b>482.4</b>	<b>561.9</b>	<b>648.8</b>	<b>720.1</b>	<b>863.7</b>	<b>1,046.9</b>
Growth (%)	21.0	20.3	16.5	15.5	11.0	19.9	21.2
Non-Interest Income	152.2	176.3	232.6	252.0	295.1	336.4	393.6
<b>Total Income</b>	<b>553.2</b>	<b>658.7</b>	<b>794.5</b>	<b>900.8</b>	<b>1,015.2</b>	<b>1,200.1</b>	<b>1,440.5</b>
Growth (%)	21.7	19.1	20.6	13.4	12.7	18.2	20.0
Operating Expenses	226.9	261.2	307.0	327.2	374.4	460.0	547.5
<b>Pre-Provision Profit</b>	<b>326.2</b>	<b>397.5</b>	<b>487.5</b>	<b>573.6</b>	<b>640.8</b>	<b>740.1</b>	<b>893.0</b>
Growth (%)	26.8	21.8	22.6	17.7	11.7	15.5	20.7
<b>Core PPP</b>	<b>311.0</b>	<b>380.3</b>	<b>465.9</b>	<b>549.2</b>	<b>601.7</b>	<b>695.7</b>	<b>840.8</b>
Growth (%)	40.8	22.3	22.5	17.9	9.6	15.6	20.9
Provisions (excl. tax)	59.3	75.5	121.4	157.0	150.6	150.2	183.2
<b>PBT</b>	<b>267.0</b>	<b>322.0</b>	<b>366.1</b>	<b>416.6</b>	<b>490.2</b>	<b>589.9</b>	<b>709.8</b>
Tax	92.1	111.2	103.5	105.4	120.5	149.3	179.6
Tax Rate (%)	34.5	34.5	28.3	25.3	24.6	25.3	25.3
<b>PAT</b>	<b>174.9</b>	<b>210.8</b>	<b>262.6</b>	<b>311.2</b>	<b>369.6</b>	<b>440.7</b>	<b>530.3</b>
Growth (%)	20.2	20.5	24.6	18.5	18.8	19.2	20.3

### Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	5.2	5.4	5.5	5.5	5.5	5.5	5.5
Reserves and Surplus	1,057.8	1,486.6	1,704.4	2,031.7	2,395.4	2,784.8	3,259.6
<b>Net Worth</b>	<b>1,063.0</b>	<b>1,492.1</b>	<b>1,709.9</b>	<b>2,037.2</b>	<b>2,400.9</b>	<b>2,790.3</b>	<b>3,265.1</b>
<b>Deposits</b>	<b>7,887.7</b>	<b>9,231.4</b>	<b>11,475.0</b>	<b>13,350.6</b>	<b>15,592.2</b>	<b>18,086.9</b>	<b>21,342.6</b>
Growth (%)	22.5	17.0	24.3	16.3	16.8	16.0	18.0
<b>of which CASA Deposits</b>	<b>3,430.9</b>	<b>3,912.0</b>	<b>4,846.3</b>	<b>6,156.8</b>	<b>7,510.5</b>	<b>8,301.9</b>	<b>9,838.9</b>
Growth (%)	11.0	14.0	23.9	27.0	22.0	10.5	18.5
Borrowings	1,231.0	1,170.9	1,446.3	1,354.9	1,848.2	2,074.7	2,385.3
Other Liabilities and Prov.	457.6	551.1	673.9	726.0	844.1	945.4	1,039.9
<b>Total Liabilities</b>	<b>10,639.3</b>	<b>12,445.4</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>23,897.3</b>	<b>28,032.9</b>
Current Assets	1,229.2	813.5	866.2	1,194.7	1,523.3	1,572.6	1,755.9
<b>Investments</b>	<b>2,422.0</b>	<b>2,931.2</b>	<b>3,918.3</b>	<b>4,437.3</b>	<b>4,555.4</b>	<b>5,284.2</b>	<b>6,182.5</b>
Growth (%)	12.9	21.0	33.7	13.2	2.7	16.0	17.0
<b>Loans</b>	<b>6,583.3</b>	<b>8,194.0</b>	<b>9,937.0</b>	<b>11,328.4</b>	<b>13,688.2</b>	<b>16,111.0</b>	<b>19,107.7</b>
Growth (%)	18.7	24.5	21.3	14.0	20.8	17.7	18.6
Fixed Assets	36.1	40.3	44.3	49.1	60.8	68.1	76.3
Other Assets	368.8	466.5	539.3	459.3	857.7	861.3	910.5
<b>Total Assets</b>	<b>10,639.3</b>	<b>12,445.4</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>23,897.3</b>	<b>28,032.9</b>

### Asset Quality

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GNPA	86.1	112.2	126.5	150.9	161.4	203.0	235.8
NNPA	26.0	32.1	35.4	45.5	44.1	56.2	65.1
GNPA Ratio	1.3	1.4	1.3	1.3	1.2	1.2	1.2
NNPA Ratio	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Slippage Ratio	2.1	1.9	1.9	1.5	2.1	1.9	1.8
Credit Cost	0.8	0.9	1.3	1.5	1.2	0.9	1.0
PCR (Excl. Tech. write-off)	69.8	71.4	72.0	69.8	72.7	72.3	72.4

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield on Earning Assets</b>	<b>9.4</b>	<b>9.6</b>	<b>9.0</b>	<b>8.1</b>	<b>7.4</b>	<b>8.2</b>	<b>8.4</b>
Avg. Yield on loans	10.3	10.5	10.1	8.9	7.9	8.8	9.0
Avg. Yield on Inv.	7.2	7.6	6.1	5.6	5.8	6.3	6.7
<b>Avg. Cost to Int. Bear. Liab.</b>	<b>4.9</b>	<b>5.2</b>	<b>5.0</b>	<b>4.1</b>	<b>3.5</b>	<b>4.2</b>	<b>4.3</b>
Avg. Cost of Deposits	4.6	4.8	4.9	4.0	3.4	3.9	4.1
<b>Interest Spread</b>	<b>4.5</b>	<b>4.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.9</b>	<b>4.0</b>	<b>4.1</b>
<b>Net Interest Margin</b>	<b>4.4</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>3.9</b>	<b>4.0</b>	<b>4.2</b>

### Capitalization Ratios (%)

CAR	14.8	17.1	18.3	18.5	18.7	17.9	17.2
Tier I	13.3	15.8	17.0	17.3	17.7	17.1	16.4
Tier II	1.6	1.3	1.2	1.2	1.0	0.8	0.7

### Business and Efficiency Ratios (%)

Loans/Deposit	83.5	88.8	86.6	84.9	87.8	89.1	89.5
CASA Ratio	43.5	42.4	42.2	46.1	48.2	45.9	46.1
Cost/Assets	2.1	2.1	2.0	1.9	1.8	1.9	2.0
Cost/Total Income	41.0	39.7	38.6	36.3	36.9	38.3	38.0
Cost/Core Income	42.2	40.7	39.7	37.3	38.4	39.8	39.4
Int. Expense/Int. Income	50.0	51.3	51.1	46.3	43.6	47.5	47.5
Fee Income/Total Income	22.8	23.5	24.1	20.9	22.9	22.2	21.7
Non Int. Inc./Total Income	27.5	26.8	29.3	28.0	29.1	28.0	27.3
Emp. Cost/Total Expense	30.0	29.7	31.0	31.7	32.1	31.4	32.2
Investment/Deposit	30.7	31.8	34.1	33.2	29.2	29.2	29.0

### Valuation

RoE	17.9	16.5	16.4	16.6	16.7	17.0	17.5
RoA	1.8	1.8	1.9	1.9	1.9	2.0	2.0
RoRWA	2.4	2.4	2.6	2.8	2.8	2.8	2.8
Book Value (INR)	204.8	273.9	311.8	369.5	432.9	503.2	588.8
Growth (%)	22.0	33.8	13.8	18.5	17.2	16.2	17.0
<b>Price-to-BV (x)</b>	<b>6.7</b>	<b>5.0</b>	<b>4.4</b>	<b>3.7</b>	<b>3.2</b>	<b>2.7</b>	<b>2.3</b>
Adjusted BV (INR)	193.9	262.8	300.3	356.8	420.5	488.1	571.2
<b>Price-to-ABV (x)</b>	<b>7.0</b>	<b>5.2</b>	<b>4.5</b>	<b>3.8</b>	<b>3.2</b>	<b>2.8</b>	<b>2.4</b>
EPS (INR)	33.9	39.6	48.0	56.6	66.8	79.5	95.6
Growth (%)	19.4	16.9	21.2	17.8	18.1	18.9	20.3
<b>Price-to-Earnings (x)</b>	<b>40.2</b>	<b>34.4</b>	<b>28.4</b>	<b>24.1</b>	<b>20.4</b>	<b>17.2</b>	<b>14.3</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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