

Estimate change 

TP change 

Rating change 

Bloomberg	HDFC IN
Equity Shares (m)	1804
M.Cap.(INRb)/(USD\$b)	5251.1 / 64.2
52-Week Range (INR)	2867 / 2027
1, 6, 12 Rel. Per (%)	4/14/20
12M Avg Val (INR M)	7783

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Core PPOP	185	204	234
Reported PAT	162	181	209
Adj. PAT	156	175	202
Adj. EPS (INR)	70.9	79.3	92.9
EPS Gr. (%)	13.7	11.9	17.0
BV/Sh. (INR)	707	771	834
ABV/Sh. (INR)	566	630	693
Core RoA (%)	2.0	2.0	2.0
Core RoE (%)	13.1	13.3	14.0
Payout (%)	50	49	44

Valuation

AP/E (x)	26.3	23.5	20.1
P/BV (x)	4.0	3.7	3.4
AP/ABV (x)	3.3	3.0	2.7
Div. Yield (%)	1.5	1.7	1.7

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	0.0	0.0	0.0
DII	22.5	21.8	19.1
FII	66.2	67.2	69.2
Others	11.3	11.0	11.7

FII Includes depository receipts

CMP: INR2,862

TP: INR3,290 (+15%)

Buy

Earnings beat; loan growth marginally below expectation

- HDFC 4QFY23 reported PAT grew 20% YoY to INR44.3b (13% beat), aided by a) NIM expansion and b) Higher assignment income. Core PPOP grew 16% YoY to INR53.4b.
- NIM expanded sequentially by ~10bp with FY23 NIM at 3.6% (v/s 3.5% as on 9MFY23). Credit costs increased ~4bp QoQ to ~29bp.
- Disbursements in the Individual segment were slightly below INR500b in 4QFY23. Individual/total AUM rose 17%/11% YoY, with Individual loans comprising ~83% of AUM.
- The management shared that it has not witnessed any perceptible change in demand for mortgages, despite the high interest rates and that a large proportion of customers have seen only their tenor increase rather than any EMI increase. HDFC achieved its highest ever monthly disbursements in Mar'23 and expects this positive momentum to continue throughout FY24. Commentary on the existing mortgage demand has been divergent across the different lenders in the mortgage ecosystem.
- HDFC continues to have a strong 'right to win' in its standalone Mortgage business. **We reiterate our BUY rating on the stock with a TP of INR3,290 (premised on Mar'25E SoTP).**

Effective management of transmission lag drives NIM expansion

- Effective Jul'22, HDFC had reduced the re-pricing frequency on freshly disbursed Retail loans to one month (from three-months earlier). However, on the back-book, one-third of the Retail book gets re-priced every month due to the quarterly reset.
- While the spreads were stable, the improvement in yields led to a sequential margin expansion of ~10bp with FY23 NIM at 3.6% (v/s 3.5% as on 9MFY23). With expectations of a near-end to the repo rate hike cycle, we expect margins to stabilize over the next three to six months.

Asset quality improves; restructured pool moderates sequentially

- Gross S2 + S3 (combined, 30+dpd) declined ~55bp QoQ to 5.0% (PQ: 5.6%). GS3 decreased 40bp QoQ to 1.4%. ECL/EAD declined ~25bp QoQ to ~2%.
- GNPA (IRAC) declined ~30bp QoQ to ~1.2%, led by ~10bp/1pp QoQ decline in Individual/Non Individual GNPA to 0.75%/2.9%.
- Total restructured pool stood at 0.6% of AUM (PY: 0.8%).
- We expect asset quality to continue to exhibit strength and we model credit costs of ~25bp/20bp for FY24/FY25.

Merger on track: Effective date likely to be around Jul'23

- Warrant holders of HDFC Ltd. who were earlier eligible to receive HDFC Ltd shares if they exercised the warrants will now receive HDFC Bank shares in the same proportion as was announced at the time of the merger.
- Of the total loan book, INR1.1t will qualify for the PSL requirements of HDFCB. Total SLR is INR630b-640bn [G-Sec + Cash] and the requirement from HDFC Ltd is for SLR of INR1t.
- The management has indicated that over the next 12 months, the company has a monthly scheduled liability repayments maturing between INR100-150b. It is expected that ~70% of these deposits will be renewed upon maturity.

Highlights from the management commentary

- HDFC has been replacing corporate deposits with longer maturity retail deposits, resulting in lower growth in corporate deposits.
- In the context of the merger, HDFC has represented to all the respective regulators for grand-fathering of assets and liabilities and logically expects the regulators to grant this.
- The decrease in non-individual loans can be attributed to payment of earlier facilities, resolutions, and a reduction in certain exposures, resulting from the merger.
- HDFC is willing to reduce its stake in HDFC Credila to less than 10%. The company plans to close this transaction by the end of June 2023.

Impact of higher interest rates on loan growth and delinquencies will remain the key monitorables; reiterate BUY

- We expect HDFC's margin to remain largely stable over FY24/FY25. With overall provisions at 2% of EAD, HDFC has made adequate provisions for any contingencies in asset quality.
- We have increased our FY25 EPS estimates by 2% to factor in lower credit costs. We expect HDFC to deliver an AUM and PAT CAGR of ~14% each over FY23-25, which will translate into a core RoA/RoE of 2%/14% in FY25. **We reiterate our BUY rating on the stock with a TP of INR3,290 (premised on Mar'25 SoTP).**

Quarterly Performance

(INR b)

Y/E March	FY22				FY23				FY22	FY23	4Q FY23E	Act V/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	106.5	106.8	111.6	113.7	120.0	132.0	145.3	155.1	438.6	552.4	152.1	1.9
Interest Expense	65.2	65.7	68.7	67.7	75.6	85.6	96.9	101.8	267.4	359.9	101.4	0.5
Net Interest Income	41.3	41.1	42.8	46.0	44.5	46.4	48.4	53.2	171.2	192.5	50.8	4.8
YoY Change (%)	24	14	7	14	8	13	13	16	14	12	10	
Assignment Income	2.7	1.3	2.2	4.4	2.8	2.3	1.6	5.7	10.6	12.4	4.7	21.9
NII (including assignment income)	43.9	42.4	45.1	50.4	47.3	48.7	50.0	58.9	181.8	204.9	55.5	6.2
YoY Change (%)	25	13	2	13	8	15	11	17	19	13	10	
Other Operating Income	0.6	0.9	0.8	1.0	0.8	0.9	1.2	1.2	3.3	4.0	0.8	41.1
Core Income	44.5	43.3	45.9	51.4	48.0	49.7	51.2	60.1	185.1	209.0	56.3	6.7
YoY Change (%)	25	13	2	13	8	15	11	17	19	13	10	
Operating Expenses	5.5	5.3	4.8	5.1	5.9	5.9	5.7	6.7	20.7	24.2	5.7	17.2
YoY Change (%)	39	45	-11	3	7	11	19	30	15	17	11	
Core Operating profits	39.0	38.0	41.1	46.2	42.2	43.8	45.4	53.4	164.4	184.8	50.6	5.5
YoY Change (%)	23	9	4	14	8	15	11	16	20	12	9	
Provisions	6.9	4.5	3.9	4.0	5.1	4.7	3.7	4.4	19.3	18.0	3.8	14.7
Core PBT	32.2	33.4	37.2	42.2	37.0	39.0	41.7	49.0	145.0	166.8	46.8	4.8
YoY Change (%)	63	10	11	26	15	17	12	16	24	15	11	
Profit on Sale of												
Inv./MTM on Inv.	6.7	1.4	1.3	2.7	1.9	1.4	-0.6	2.8	12.0	5.5	2.0	
Dividend income	0.2	11.7	2.0	1.3	6.9	13.6	4.8	2.1	15.1	27.4	1.2	
One off expense/Prov	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Income	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.3	0.5	0.1	
PBT	39.0	46.7	40.5	46.2	45.9	54.1	46.1	54.0	172.5	200.1	50.0	7.9
YoY Change (%)	44	32	8	18	18	16	14	17	24	16	8	
Provision for Tax	9.0	8.9	7.9	9.2	9.2	9.6	9.2	9.7	35.0	37.7	10.8	-10.1
PAT	30.0	37.8	32.6	37.0	36.7	44.5	36.9	44.3	137.4	162.4	39.2	12.9
YoY Change (%)	39	32	11	16	22	18	13	20	24	18	6	
PAT (Excl exceptional)	25.9	36.2	31.4	34.9	35.2	42.2	37.4	41.0	128.4	155.7	38.4	-8.4
YoY Change (%)	43	34	17	26	36	16	19	18	20	21	10	

E: MOFSL Estimates; FY19 estimates are under Ind-AS



Highlights from the management commentary

Demand Momentum

- The robust growth can be attributed to the strong momentum in the economy.
- In Mar'23, the company recorded its highest ever monthly individual loan disbursements in HDFC's history. It guided for this positive momentum to continue.
- Growth in home loans was seen in all segments of the market. 90% of the loan applications were received digitally.
- Individual disbursements in 4QFY23 were a little below INR500b and grew 16% YoY in FY23.
- Interest rate fluctuations have had a relatively insignificant impact on mortgages, as the tenors are typically extended during periods of rising interest rates and shortened when the interest rates decline. Additionally, about 10-11% of the loans are pre-paid ahead of schedule every year.

Update on the Merger

- The management expects the effective date of the merger to be in July 2023, based on the current progress.

- The Warrant Holder who was entitled to receive HDFC Ltd Share will receive the HDFC Bank shares in the same proportion of 1.68x as previously announced during the merger.
- The LCR will be determined by the fluctuations in the next 30 days outflows, which will vary based on the liability profile.
- The management has indicated that over the next 12 months, the company has a monthly scheduled liability repayments maturing between INR100-150b. It is expected that ~70% of these deposits will be renewed upon maturity.
- It has been represented to all the respective regulators and it is believed that grand-fathering should logically be something that can be granted by the regulators.
- PSL compliant book stood at INR1.1t
- SLR is INR630b-640bn [G-Sec + Cash] and the requirement from HDFC Ltd is for SLR of INR1t.
- All Construction Finance loans are bank compliant and would move into the Bank structure. Quantum of Land Funding loans would be insignificant.

HDFC Credila

- Willing to reduce the stake in HDFC Credila to <10%. It will be looking to close this transaction by the end of June unless there are some restrictions from RBI on onboarding new customers.
- 4QFY23 gross liability mobilization stood at INR850b.

Liabilities

- Deposits constitute 27% of the borrowings. Retail deposits stood at 73% (PY: 62%) of the total borrowings.
- Reducing the level of Corporate deposits and increasing the proportion of Retail Deposits.
- NCDs have an average duration of 100 months and Bank Loans have an average duration of 15 months. Total Bank term loans on a stock basis will have an average duration of 10-11 months. Already speaking to Banks to move these term loans to 3-year duration.
- NCD: INR2.2t; Bank borrowings: INR 1t are linked to external benchmarks. INR3.4-3.5t will be linked to external or banking benchmarks.
- Growth on the Corporate Deposits has been lower since it has been replacing them with longer maturity Retail Deposits. It has been trying to build a clause for a 30-day notice before withdrawing Corporate Deposits. This should improve the LCR.

Margins

- In FY23, NIM improved to 3.6% and this reflects the company's ability to effectively manage the transmission lag.

Asset Quality

- Outstanding loans under OTR stood at INR38.9b (94% of the OTR is in the individual loans category).
- Individual GNPA stood at 0.75% (PY: 0.99%) and Non-individual GNPA stood at 2.9% (PY: 4.76%).

- Total EAD of INR6.18t is split as Stage 1: 95% , Stage 2: 3.6% and Stage 3: 1.4%
- 4QFY23 credit costs stood at INR4.4b towards provisioning; FY23 credit costs stood at INR17.8b. Annualized credit costs stood at 25bp in 4QFY23 and 27bp in FY23.
- ECL/EAD declined to 1.96%.

Non-individual Loans

- Non-individual loans continued to moderate and this can be attributed to payment of earlier facilities, resolutions, and a reduction in certain exposures, resulting from the merger.
- Non-individual spreads stood at 3.62% and individual spreads stood at 1.92%

Individual Loans

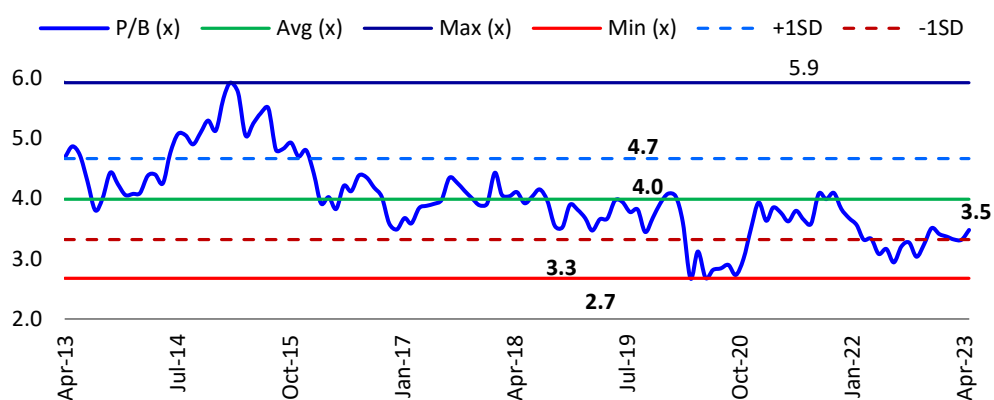
- Total AUM grew 17% YoY to INR4.299t.
- Individual loans sold outstanding stood at INR1.02t. Prepayments stood at 11.3% of the opening loan book.
- Average ATS of INR3.62m (FY22: INR3.31m).
- 23% of Home Loans approved in volume terms and 9% in value terms were to EWS and LIG.
- Individual loans contributed 83% of the loan book (PY: 79%). Construction Finance: 4%; LRD: 9%; and Corporate Term Loans: 4%
- Sourcing Mix: HDFC Sales:51% and HDFC Bank: 31% and DSAs at 16%
- ECLGS disbursements (stock basis) stood at 0.3% of the loan book.

Exhibit 1: Mar'25E-based SoTP

Particular	Stake	Value (INR b)	Value (USD b)	Value/ share (INR)	As a percentage of the total	Target multiple (x)	Rationale
Core business		3,266	43.2	1,780	54.1	2.5	❖ PBV
Key ventures							
HDFCB	21.0	2,281	30.2	1,244	37.8	3.0	❖ PBV
HDFCLIFE	47.8	594	7.9	325	9.9	2.3	❖ PEV
HDFC CAMC	52.6	247	3.3	134	4.1	26.0	❖ PE
HDFC ERGO GIC	50.0	159	2.1	87	2.6	7.0	❖ PBV
BANDHAN	10.0	42	0.6	23	0.7	1.5	❖ PBV
Credila	100.0	120	1.6	65	2.0		❖ Last deal
Other Invt.		17	0.2	9	0.3	1.0	❖ Invested Capital
Total value of ventures		3,459	45.8	1,887	57.4		
Less: 20% holding discount		692	9.2	377	11.5		
Value of key ventures		2,767	36.6	1,510	45.9		
SoTP		6,033	79.8	3,290	100.0		
CMP		5,251	69.5	2,862			
Upside (%)		14.9	14.9	14.9			

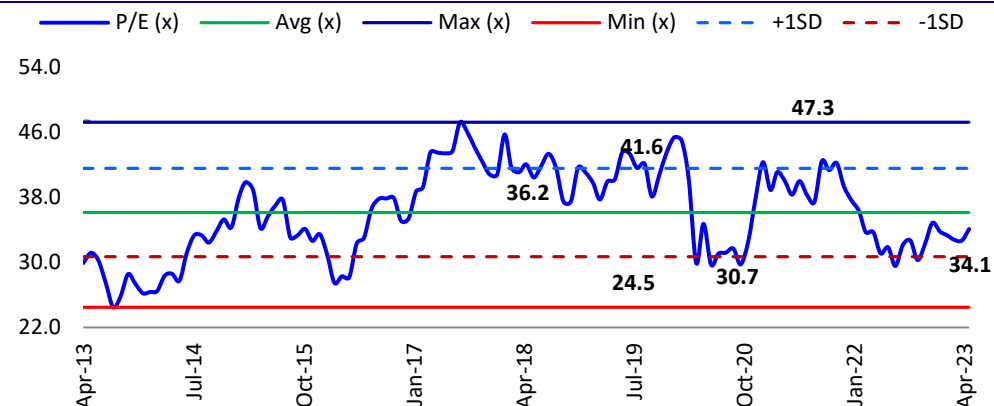
Source: MOFSL, Company

Exhibit 2: One-year forward P/B ratio



Source: MOFSL, Company

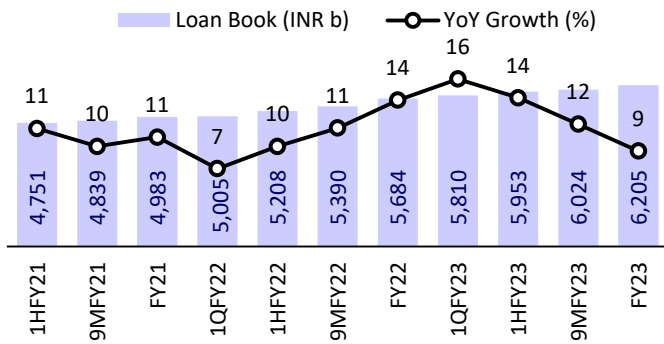
Exhibit 3: One-year forward P/E ratio



Source: MOFSL, Company

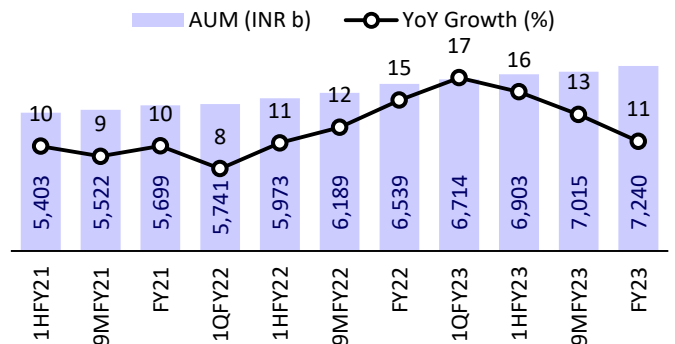
Key exhibits

Exhibit 4: Loan growth aided by strong momentum in Individual loans despite a decline in non-individual loans



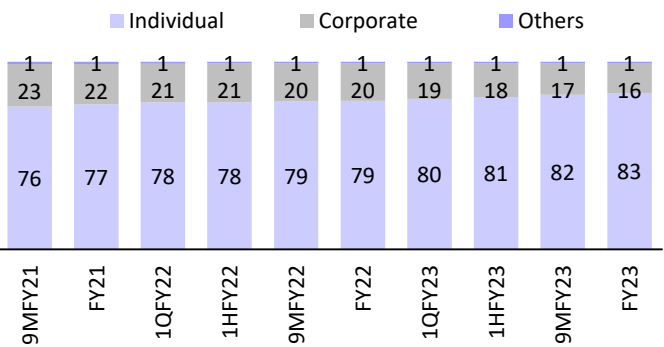
Source: MOFSL, Company

Exhibit 5: AUM grew 11% YoY



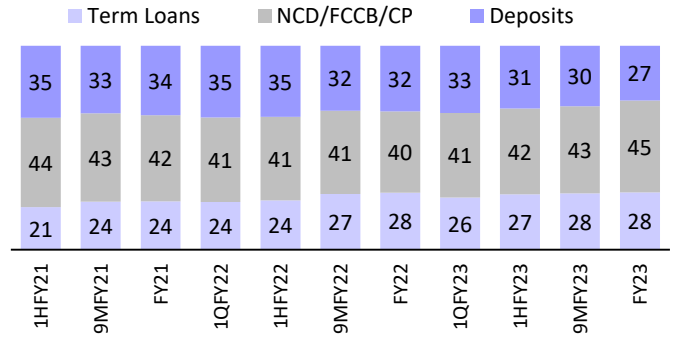
Source: MOFSL, Company

Exhibit 6: Non-Individual loan book continued to moderate



Source: MOFSL, Company, *HL: Home Loans

Exhibit 7: Moderation in proportion of deposits (%)



Source: MOFSL, Company

Exhibit 8: GS3 improved ~40bp QoQ...

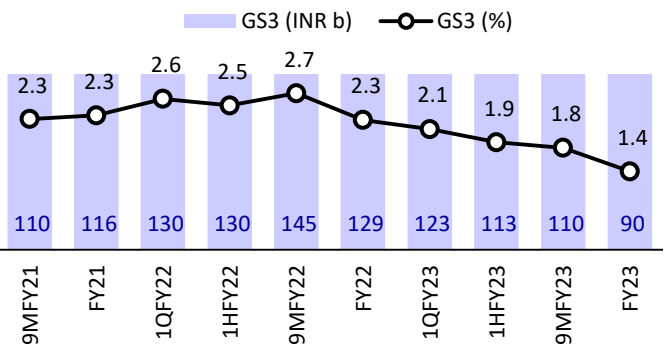


Exhibit 9: ...and NS3 improved ~10bp

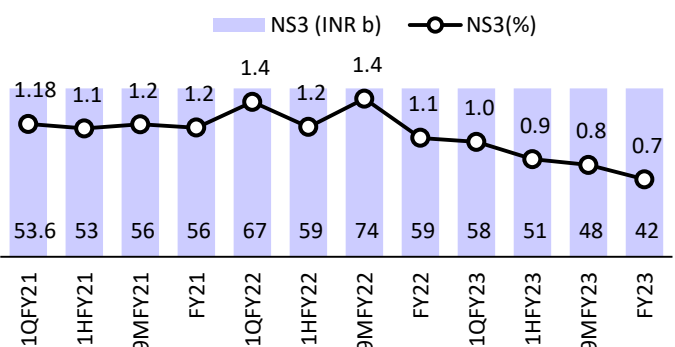
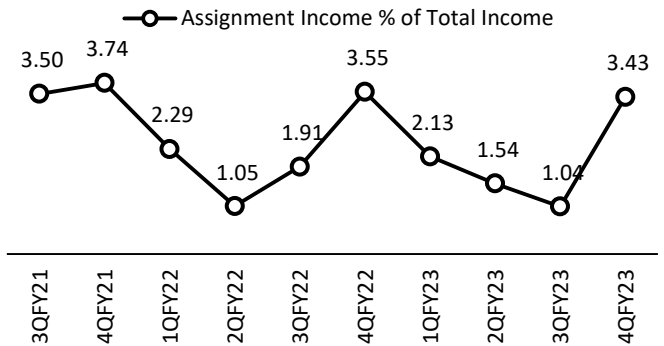
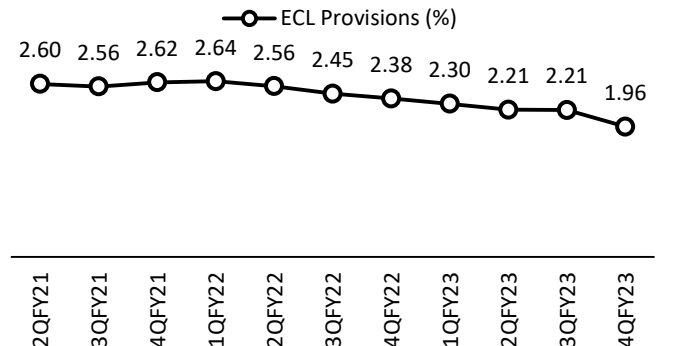


Exhibit 10: Trend in assignment income (%)



Source: MOFSL, Company

Exhibit 11: ECL provisions declined ~25bp QoQ to ~2%



Source: MOFSL, Company

Financials and valuation

Income statement									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	309	331	393	437	436	439	552	627	710
Interest Expended	209	235	278	310	286	267	360	413	466
Net Interest Income	100	96	114	127	150	171	192	214	245
Change (%)	14.5	-3.2	18.7	11.4	17.4	14.4	12.4	11.2	14.3
Assignment income	0	5	9	10	12	11	12	13	15
NII (including assignment income)	100	102	123	137	162	182	205	227	259
Change (%)	14.5	2.2	21.0	11.5	17.8	12.5	12.7	10.6	14.5
Other core operating income	3.5	2.2	3.1	3.0	2.9	3.3	4.0	4.3	4.6
Core Income	103	104	126	140	164	185	209	231	264
Change (%)	13.5	0.9	21.4	11.1	17.4	12.5	12.9	10.5	14.3
Operating Expenses	8	19	15	15	18	21	24	27	31
Change (%)	10.3	127.6	-22.0	0.8	20.0	15.3	16.8	12.3	12.4
% of core income	8.1	18.3	11.8	10.7	10.9	11.2	11.6	11.8	11.6
Core operating profits	95	85	111	125	146	164	185	204	234
Change (%)	13.8	-10.3	31.1	12.5	17.0	12.2	12.4	10.3	14.6
Provisions/write offs	4	5	5	16	29	19	18	15	13
Core PBT	90	80	106	109	117	145	167	188	220
Change (%)	12.3	-11.2	32.2	2.9	7.1	24.0	15.0	12.9	17.0
Profit on sale/MTM on Invt.	10	57	18	126	24	12	6	8	8
Dividend Income	9	11	11	11	7	15	27	30	32
One off exp/prov	-3	-17	-4	-43	0	0	0	0	0
Miscellaneous Income	1	0	0	0	0	0	0	1	1
PBT	107	132	131	204	148	172	200	227	262
Tax	33	22	35	26	28	35	38	45	52
Tax Rate (%)	30.6	16.9	26.6	12.7	18.8	20.3	18.9	20.0	20.0
Reported PAT	74	110	96	178	120	137	162	181	209
Change (%)	5	47	-12	84	-32	14	18	12	15
Adjusted PAT*	74	68	87	96	107	128	156	175	202
Change (%)	12	-9	29	10	11	20	21	12	16

* (Core PBT + Dividend Income + Other income) adjusted for applicable tax

Balance sheet									(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	3	3	3	3	4	4	4	4	4
Reserves and Surplus (Ex OCI)	433	652	774	928	1,096	1,200	1,294	1,423	1,540
Net Worth (Ex OCI)	436	655	778	932	1,099	1,203	1,298	1,427	1,544
Other Comprehensive Income	-2	-3	-4	-70	-53	-42	0	0	0
Net Worth (Incl OCI)	434	653	774	862	1,046	1,161	1,298	1,427	1,544
Borrowings	2,794	3,197	3,662	4,191	4,414	4,997	5,682	6,384	7,214
Change (%)	17.6	14.4	14.5	14.4	5.3	13.2	13.7	12.4	13.0
Other liabilities	124	139	152	188	216	251	288	317	348
Total Liabilities	3,352	3,989	4,588	5,241	5,676	6,409	7,268	8,128	9,106
Loans	2,989	3,628	4,066	4,509	4,853	5,549	6,084	7,015	7,927
Change (%)	15.3	21.4	12.1	10.9	7.6	14.3	9.6	15.3	13.0
Investments	202	307	462	649	686	686	977	1,026	1,077
Change (%)	31.5	52.2	50.5	40.4	5.7	-0.1	42.5	5.0	5.0
Net Fixed Assets	10	10	10	22	22	41	43	47	52
Other assets	150	43	50	60	115	133	164	39	50
Total Assets	3,352	3,989	4,588	5,241	5,676	6,409	7,268	8,128	9,106

E: MOFSL Estimates

Financials and valuation

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
AUM (INR B)	3,385	4,029	4,619	5,168	5,699	6,539	7,240	8,253	9,326
Change (%)	16.1	19.0	14.7	11.9	10.3	14.7	10.7	14.0	13.0
Individual loans (%)	72.6	72.9	74.5	75.8	77.3	79.1	83.3	85.0	86.0
Non Individual loans (%)	27.4	27.1	25.5	24.2	22.7	20.9	16.7	15.0	14.0
On Balance Sheet (%)	88.3	90.1	88.0	87.3	85.2	84.9	84.0	85.0	85.0
Assignment/Securitisation (%)	11.7	9.9	12.0	12.7	14.8	15.1	16.0	15.0	15.0

E: MOFSL Estimates

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Spreads Analysis (%)									
Avg Yield on Hsg Loans	10.5	9.6	9.7	9.7	8.9	7.9	8.8	8.9	8.9
Avg. Yield on Funds	10.5	9.4	9.5	9.4	8.5	7.8	8.6	8.7	8.7
Avg. Cost of funds	8.1	7.8	8.1	7.9	6.7	5.7	6.7	6.9	6.9
Interest Spread on loans	2.5	1.7	1.6	1.8	2.2	2.2	2.1	2.1	2.0
Net Interest Margin	3.4	2.7	2.8	2.7	2.9	3.0	3.0	3.0	3.0

Profitability Ratios (%)

RoAE	18.7	20.2	13.5	21.7	12.6	12.5	13.2	13.3	14.1
Core ROE	19.7	12.6	13.0	13.1	12.8	12.7	13.1	13.3	14.0
RoA	2.37	1.84	2.03	1.96	1.96	2.12	2.28	2.27	2.35
Core ROA	2.04	1.61	1.84	1.80	1.87	1.93	1.96	1.96	2.04

Efficiency Ratios (%)

Int. Expended/Int.Earned	67.7	70.9	70.9	70.9	65.7	61.0	65.2	65.9	65.6
Op. Exps./Net Income	6.8	11.1	9.6	5.4	9.2	9.8	10.0	10.1	10.0
Empl. Cost/Op. Exps.	46.5	72.0	48.2	39.6	50.8	51.2	42.4	41.5	40.6

Asset Quality (INR m)

Gross NPAs	24	41	48	89	116.2	128.8	89.5	96.4	107.1
Gross NPAs to Adv. (%)	0.8	1.1	1.2	2.0	2.3	2.3	1.4	1.4	1.4
Net NPAs	16	29	34	66	55.6	58.8	41.9	48.2	53.5
Net NPAs to Adv. (%)	0.6	0.8	0.8	1.5	1.1	1.0	0.7	0.7	0.7

VALUATION	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (INR)	274.7	391.1	451.7	537.9	609.3	663.7	707.3	770.7	833.8
Price-BV (x)			6.3	5.3	4.7	4.3	4.0	3.7	3.4
Adjusted BV* (INR)	220.1	340.2	352.4	399.0	465.1	520.2	565.6	630.3	693.3
Adj Price-ABV (x)			6.3	5.2	4.3	3.6	3.3	3.0	2.7
Adjusted EPS (INR)#	39.1	34.5	44.4	49.2	54.5	62.4	70.9	79.3	92.9
Adjusted EPS Growth YoY	15.9	-11.7	28.7	10.8	10.8	14.5	13.7	11.9	17.0
Adj Price-Adj EPS (x)			50.3	42.4	36.5	29.9	26.3	23.5	20.1
Dividend per share (INR)	18.0	20.0	21.0	21.0	23.0	30.0	44.0	48.0	50.0
Dividend yield (%)			0.7	0.7	0.8	1.0	1.5	1.7	1.7

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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