

Estimate change

TP change

Rating change



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Bloomberg	HDFC IN
Equity Shares (m)	1,804
M.Cap.(INRb)/(USD\$)	4316.8 / 54.5
52-Week Range (INR)	3021 / 2027
1, 6, 12 Rel. Per (%)	1/-6/-11
12M Avg Val (INR M)	9661

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Core PPOp	164.4	190.2	213.8
Reported PAT	137.4	155.2	179.2
Adj. PAT	128.4	151.4	172.0
Adj. EPS (INR)	62.4	74.3	84.1
EPS Gr. (%)	14.5	19.1	13.1
BV/Sh. (INR)	664	716	790
ABV/Sh. (INR)	520	573	648
Core RoA (%)	1.9	2.0	2.0
Core RoE (%)	12.7	13.6	13.8
Payout (%)	39.6	39	38

Valuation

AP/E (x)	21.5	18.0	15.9
P/BV (x)	3.6	3.3	3.0
AP/ABV (x)	2.6	2.3	2.1
Div. Yield (%)	1.3	1.4	1.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	0.0	0.0	0.0
DII	21.2	19.1	16.6
FII	67.8	69.2	72.2
Others	11.1	11.7	11.2

FII Includes depository receipts

CMP: INR2,379
TP: INR2,830 (+19%)
Buy

NIM compression transitory, expect it to recover

Strong traction in the Individual space, Non-Individual will follow suit

- HDFC reported a PAT of INR36.7b in 1QFY23 (8% miss), up 22% YoY. It reported a NIM compression of ~10bp YoY and 30bp QoQ at 3.4%. Credit costs rose ~7bp QoQ to ~36bp.
- Disbursements in the Individual segment grew 66% YoY to ~INR420b. Individual/total AUM rose 20%/17% YoY. The management guided at a strong pipeline in Non-Individual segment, which will translate into healthy AUM growth.
- With the merger announced, taking a view in isolation is difficult, but we feel that HDFC continues to have a strong 'Right to Win' in its standalone Mortgage business. **We maintain our Buy rating on the stock with a TP of INR2,830 (premised on Mar'24E SoTP).**

Transmission lag led to compression in NIM, efforts made to fix it

- NIM compression was due to: a) transmission lag in passing of higher borrowing costs, and b) absence of benefits of low rates on overnight interest swaps (OIS), which was present in 1QFY22.
- Adjusted for the one-time impact of the transmission lag and OIS, NII growth would have been 16% YoY (in line with AUM growth)
- HDFC has reduced the re-pricing frequency in incremental Retail lending to one-month from three-months.

Asset quality improved; credit cost should moderate from hereon

- Gross S2 + S3 (combined, 30+dpd) declined to 6.5% from 6.7% QoQ. GS3 fell 15bp QoQ to 2.1%. ECL/EAD declined by 8bp QoQ to 2.3%.
- GNPA fell by ~13bp QoQ to 1.8%, led by ~32bp decline in Non-Individual GNPA to 4.4%.
- Total restructured pool stood at 0.77% of AUM (v/s 0.8% as of 4QFY22).
- Asset quality should exhibit strengths and continue to improve. We model lower credit costs of ~30bp/25bp in FY23/FY24.

Merger on track; equity infusion in HDFCLIFE

- HDFC has received approval for the merger from RBI and is awaiting approvals from the CCI.
- From a regulatory perspective, HDFCLIFE wanted to increase its solvency ratio to over 200%. With this preferential issue of equity shares of INR20b, the shareholding of HDFC in HDFCLIFE will increase by 1%, but it will still remain below 50%.
- HDFC is awaiting clarity from RBI on whether it can increase its stake above 50% before the merger is consummated.

Highlights from the management commentary

- Cost-to-income ratio was higher because of the increased Retail business and expansion of the branch network. Increased legal costs also contributed to higher OPEX.
- The management said there is no evidence from the past to suggest that rising interest rates have resulted in higher delinquencies.
- Within Individual/Retail loans, the back book gets re-priced over a period of three months, while it happens with a lag of one month in Non-Individual loans.
- Dividend income is higher YoY due to dividend received from HDFC AMC, HDFCLIFE, and Credila. Dividend received from HDFCB will be recognized in 2QFY23.

Impact of higher interest rates on NIM and asset quality will be key

- We expect credit costs to moderate from hereon. Asset quality exhibited strength across both Individual and Non-Individual segments.
- We expect margin to recover over the remainder of FY23. With overall provisions at 2.3% of EAD, HDFC has made adequate provisions for any contingencies in asset quality.
- We have cut our FY23 EPS estimate by 3% to factor in lower reported margin in 2Q. We expect HDFC to deliver an AUM and PAT CAGR of ~14% each over FY22-24, which will translate into a core RoA/RoE of 2%/14% in FY23/FY4. **We reiterate our Buy rating on HDFC with a TP of INR2,830 (premised on Mar'24E SoTP).**

Quarterly Performance

(INR b)

Y/E March	FY22				FY23E				FY22	FY23E	1QFY23E	Act V/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	106.5	106.8	111.6	113.7	120.0	130.5	140.0	148.5	438.6	539.0	120.9	-0.7
Interest Expense	65.2	65.7	68.7	67.7	75.6	82.4	89.0	94.8	267.4	341.7	73.1	3.3
Net Interest Income	41.3	41.1	42.8	46.0	44.5	48.1	51.0	53.6	171.2	197.3	47.8	-6.9
YoY Change (%)	24	14	7	14	8	17	19	17	14	15	16	
Assignment Income	2.7	1.3	2.2	4.4	2.8	3.0	3.0	3.4	10.6	12.2	4.4	-35.6
NII (including assignment income)	43.9	42.4	45.1	50.4	47.3	51.1	54.0	57.0	181.8	209.5	52.2	-9.4
YoY Change (%)	25	13	2	13	8	21	20	13	19	15	19	
Other Operating Income	0.6	0.9	0.8	1.0	0.8	0.9	0.9	1.2	3.3	3.7	0.9	-17.0
Core Income	44.5	43.3	45.9	51.4	48.0	52.0	54.9	58.2	185.1	213.2	53.1	-9.5
YoY Change (%)	25	13	2	13	8	20	20	13	19	15	19	
Operating Expenses	5.5	5.3	4.8	5.1	5.9	6.0	5.5	5.5	20.7	23.0	5.8	0.9
YoY Change (%)	39	45	-11	3	7	14	16	7	15	11	6	
Core Operating profits	39.0	38.0	41.1	46.2	42.2	46.0	49.4	52.7	164.4	190.2	47.2	-10.8
YoY Change (%)	23	9	4	14	8	21	20	14	20	16	21	
Provisions	6.9	4.5	3.9	4.0	5.1	4.6	4.4	3.2	19.3	17.4	4.4	16.5
Core PBT	32.2	33.4	37.2	42.2	37.0	41.3	45.0	49.5	145.0	172.8	42.8	-13.6
YoY Change (%)	63	10	11	26	15	24	21	17	24	19	33	
Profit on Sale of Inv./MTM on Inv.	6.7	1.4	1.3	2.7	1.9	1.0	1.0	1.6	12.0	5.5	0.3	
Dividend income	0.2	11.7	2.0	1.3	6.9	5.5	2.2	1.5	15.1	16.0	6.9	
One off expense/Prov	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	0.1	0.1	0.3	0.4	0.1	
PBT	39.0	46.7	40.5	46.2	45.9	47.9	48.3	52.6	172.5	194.7	50.1	-8.5
YoY Change (%)	44	32	8	18	18	3	19	14	24	13	28	
Provision for Tax	9.0	8.9	7.9	9.2	9.2	9.8	9.9	10.7	35.0	39.5	10.3	-10.4
PAT	30.0	37.8	32.6	37.0	36.7	38.2	38.4	41.9	137.4	155.2	39.9	-8.0
YoY Change (%)	39	32	11	16	22	1	18	13	24	13	33	

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



Highlights from the management commentary

Equity infusion in HDFC Life

- After the merger with Exide Life, the solvency margin of HDFC Life had declined.
- From a regulatory perspective, HDFC Life wanted to increase its solvency ratio to >200%. With this preferential issue of equity shares of INR20b, the the shareholding of HDFC in HDFC Life will increase by 1% (but still remain below 50%).
- HDFC will await clarity from RBI on whether it can increase its stake above 50% before the merger is consummated.

Related to Merger

- Received approval for the merger from the RBI. Awaiting approvals from the CCI.
- Almost everything that HDFC does will qualify for the Bank's book. Only something like loan against securities (LAS) and cumulatively less than 1-2% of the HDFC book will not qualify for HDFC Bank book.

NII and Margins

- In the corresponding quarter of the previous year, due to the second wave of COVID-19, there was ample liquidity in the system and consequently, overnight interest swap rates fell to very low levels, thus expanding NII and NIM.
- Adjusted for the one-time impact of the transmission lag and the the OIS Swaps, the NII growth would have been 16% which would have been in line with the growth in AUM.
- Expect the NII growth to improve during the course of the subsequent quarters and logically the NIM should also improve

Asset Quality

- 1QFY23 write-offs stood at INR4b and outstanding restructured pool stood at INR44.1b (0.77% of the AUM)
- Company suggested that there is no evidence from the past to suggest that rising interest rates have resulted in higher delinquencies

Disbursements and pipeline

- 1QFY23 individual disbursements were ~INR420b
- Non-individual loans grew by 8% YoY. Healthy pipeline of non-individual business and it has seen pre-payments. Good pipeline in construction finance and LRD and expects the growth in the non-individual segment growth to accelerate in the coming quarters. Double-digit growth in the non-individual loan book is very much on the cards.

Liabilities and LCR

- In Jul'22, RBI increased the threshold of ECB from USD750m to USD1500m; HDFC is in the process of raising 3 year ECB to the tune of USD1.1b and the fully-hedged costs will be similar to the cost in the domestic markets.
- Average LCR stood at 71% (v/s regulatory requirement of 60%)

- Transmission of higher borrowing costs by increasing lending rates
- Within Individual/Retail Loans, the back-book will get re-priced over a period of 3 months while it happens with a lag of one month in non-individual loans;
- On incremental lending, the company has reduced the re-pricing frequency from 3 months to 1 month.
- Contractually, loan tenures can be extended (to keep the EMI same) without taking explicit consent from the customers

Others

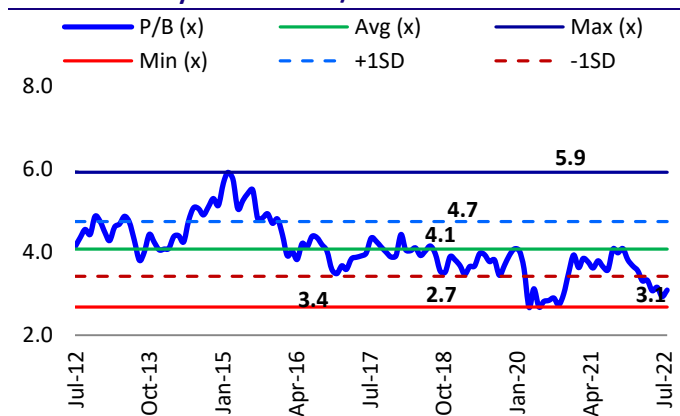
- CIR was higher because of the increased retail business and expansion of the branch network. Increased legal costs also contributed to the higher opex.
- Dividend is higher in 1QFY23 because of dividends received from HDFC AMC, HDFC Life and Credila and dividend from HDFC Bank will be received in 2QFY23.
- G-Secs stood at INR360b. Average liquidity was INR400b (PY: INR380bn)
- Cost of INR180m pertaining to ESOPs granted in 1QFY23

Exhibit 1: Mar'24E-based SOTP

Particular	Stake	Value (INR b)	Value (USD b)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
Core business		2,622	34.7	1,448	51.2	2.2	PBV
Key Ventures							
HDFC Bank	21	1,956	25.9	1,079	38.1	3	PBV
HDFC Standard Life	47.8	575	7.6	316	11.2	2.8	PEV
HDFC AMC	52.6	307	4.1	169	6	30	PE
HDFC ERGO GIC	50	122	1.6	68	2.4	6	PBV
Bandhan Bank	10	65	0.9	36	1.3	2	PBV
Credila	100	92	1.2	50	1.8		Last deal
Other Invt		17	0.2	9	0.3	1	Invested Capital
Total Value of Ventures		3,134	41.5	1,728	61		
Less: 20% holding discount		627	8.3	346	12.2		
Value of Key Ventures		2,507	33.2	1,382	48.8		
SOTP		5,129	67.8	2,830	100		
CMP		4,313	57.1	2,379			
Upside - %		18.9	18.9	19			

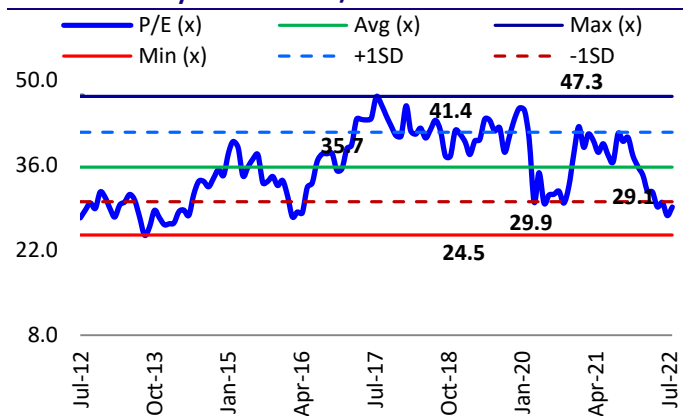
Source: MOFSL, Company

Exhibit 2: One-year forward P/B



Source: MOFSL, Company

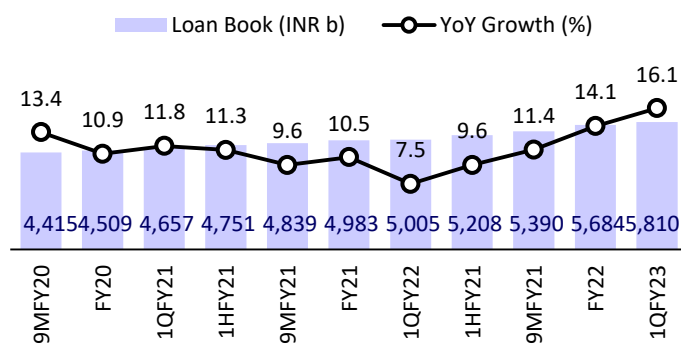
Exhibit 3: One-year forward P/E



Source: MOFSL, Company

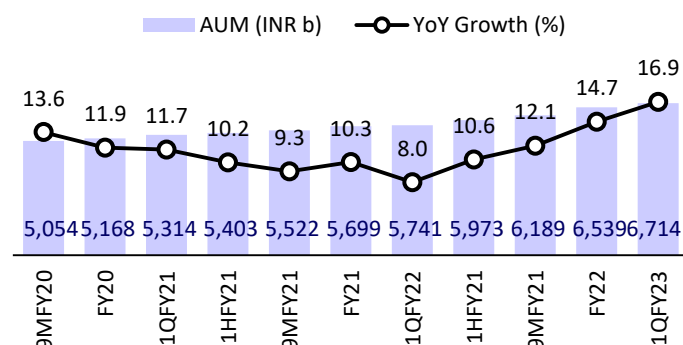
Key exhibits

Exhibit 4: Loan growth aided by increase in individual loans



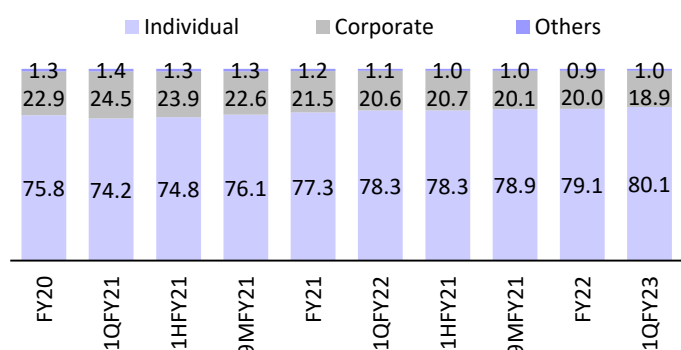
Source: MOFSL, Company

Exhibit 5: AUM grew 17% YoY



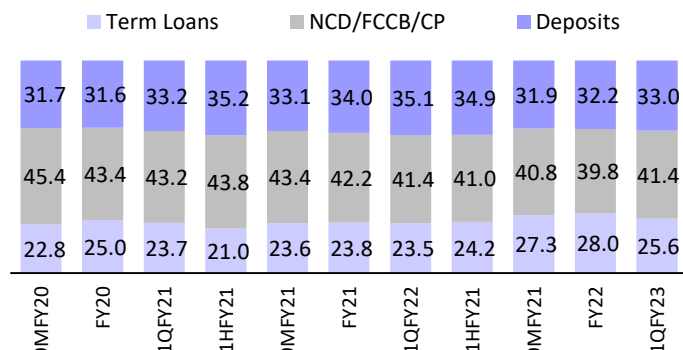
Source: MOFSL, Company

Exhibit 6: Continued focus on individual loans



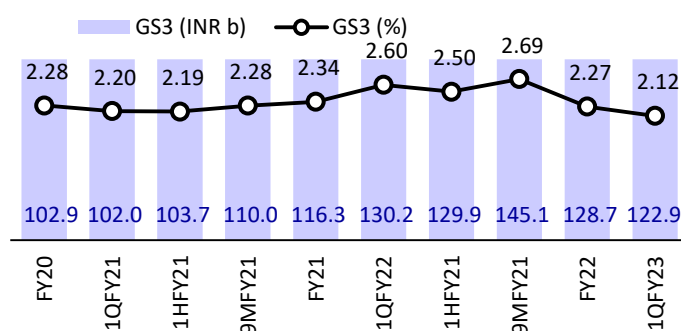
Source: MOFSL, Company, *HL :Home Loans

Exhibit 7: Share of term loans increased ~210bp YoY (%)



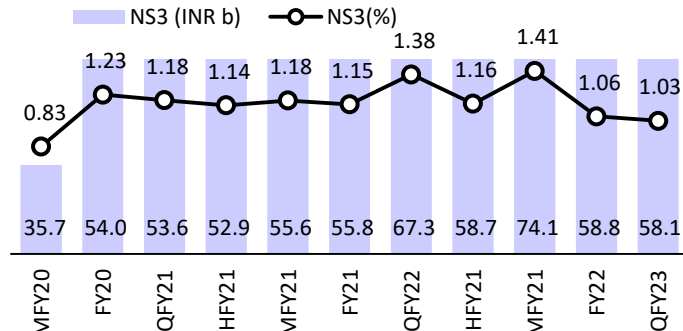
Source: MOFSL, Company

Exhibit 8: GS3 declined ~15bp QoQ (%)...



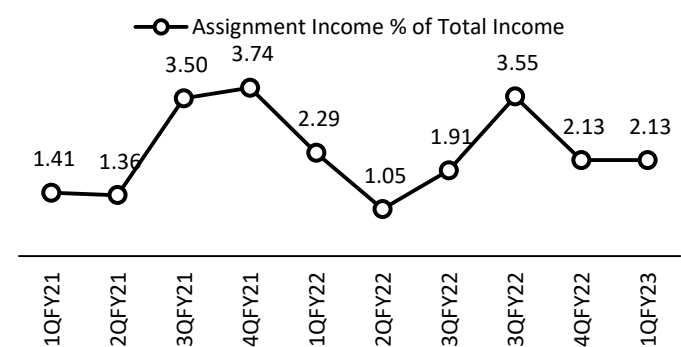
Source: MOFSL, Company

Exhibit 9: ...and NS3 was stable sequentially



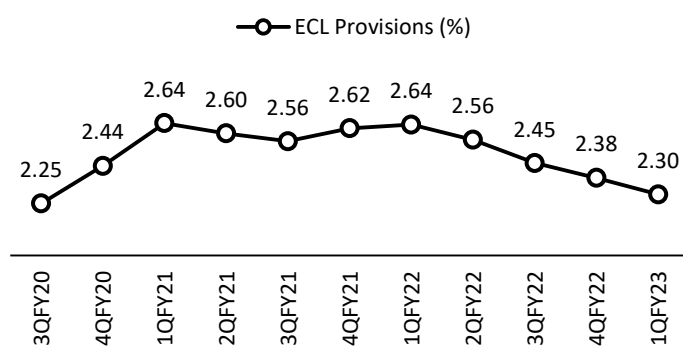
Source: MOFSL, Company

Exhibit 10: Assignment income trend (%)



Source: MOFSL, Company

Exhibit 11: Total provisions moderated to ~2.3% of loans



Source: MOFSL, Company

Financials and valuation

Income statement									(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	281	309	331	393	437	436	439	539	637
Interest Expended	194	209	235	278	310	286	267	342	414
Net Interest Income	87	100	96	114	127	150	171	197	223
Change (%)	8.8	14.5	-3.2	18.7	11.4	17.4	14.4	15.2	13.0
Assignment income	0	0	5	9	10	12	11	12	13
NII (including assignment income)	87	100	102	123	137	162	182	209	236
Change (%)	8.8	14.5	2.2	21.0	11.5	17.8	12.5	15.2	12.4
Other core operating income	3.8	3.5	2.2	3.1	3.0	2.9	3.3	3.7	4.0
Core Income	91	103	104	126	140	164	185	213	240
Change (%)	9.5	13.5	0.9	21.4	11.1	17.4	12.5	15.2	12.3
Operating Expenses	8	8	19	15	15	18	21	23	26
Change (%)	7.4	10.3	127.6	-22.0	0.8	20.0	15.3	10.9	12.0
% of core income	8.4	8.1	18.3	11.8	10.7	10.9	11.2	10.8	10.7
Core operating profits	83	95	85	111	125	146	164	190	214
Change (%)	9.7	13.8	-10.3	31.1	12.5	17.0	12.2	15.7	12.4
Provisions/write offs	3	4	5	5	16	29	19	17	17
Core PBT	80	90	80	106	109	117	145	173	197
Change (%)	8.5	12.3	-11.2	32.2	2.9	7.1	24.0	19.1	14.1
Profit on sale/MTM on Invt.	16	10	57	18	126	24	12	6	10
Dividend Income	8	9	11	11	11	7	15	16	17
One off exp/prov	-5	-3	-17	-4	-43	0	0	0	0
Miscellaneous Income	1	1	0	0	0	0	0	0	0
PBT	101	107	132	131	204	148	172	195	225
Tax	30	33	22	35	26	28	35	40	46
Tax Rate (%)	29.8	30.6	16.9	26.6	12.7	18.8	20.3	20.3	20.3
Reported PAT	71	74	110	96	178	120	137	155	179
Change (%)	18	5	47	-12	84	-32	14	13	15
Adjusted PAT*	66	74	68	87	96	107	128	151	172
Change (%)	9	12	-9	29	10	11	20	18	14

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

Balance sheet									(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	3	3	3	3	3	4	4	4	4
Reserves and Surplus (Ex OCI)	357	433	652	774	928	1,096	1,200	1,294	1,443
Net Worth (Ex OCI)	360	436	655	778	932	1,099	1,203	1,298	1,446
Other Comprehensive Income	0	-2	-3	-4	-70	-53	-42	-42	-42
Net Worth (Incl OCI)	360	434	653	774	862	1,046	1,161	1,256	1,404
Borrowings	2,376	2,794	3,197	3,662	4,191	4,414	4,997	5,851	6,709
Change (%)	13.9	17.6	14.4	14.5	14.4	5.3	13.2	17.1	14.7
Other liabilities	142	124	139	152	188	216	251	276	304
Total Liabilities	2,879	3,352	3,989	4,588	5,241	5,676	6,409	7,383	8,417
Loans	2,592	2,989	3,628	4,066	4,509	4,853	5,549	6,429	7,372
Change (%)	13.6	15.3	21.4	12.1	10.9	7.6	14.3	15.9	14.7
Investments	153	202	307	462	649	686	686	720	756
Change (%)	7.4	31.5	52.2	50.5	40.4	5.7	-0.1	5.0	5.0
Net Fixed Assets	7	10	10	10	22	22	41	45	50
Other assets	144	150	43	50	60	115	133	187	238
Total Assets	2,897	3,352	3,989	4,588	5,241	5,676	6,409	7,383	8,417

E: MOFSL Estimates

Financials and valuation

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
AUM (INR B)	2,915	3,385	4,029	4,619	5,168	5,699	6,539	7,520	8,573
Change (%)	15.1	16.1	19.0	14.7	11.9	10.3	14.7	15.0	14.0
Individual loans (%)	72.8	72.6	72.9	74.5	75.8	77.3	79.1	78.5	78.0
Non Individual loans (%)	27.2	27.4	27.1	25.5	24.2	22.7	20.9	21.5	22.0
On Balance Sheet (%)	88.9	88.3	90.1	88.0	87.3	85.2	84.9	85.5	86.0
Assignment/Securitisation (%)	11.1	11.7	9.9	12.0	12.7	14.8	15.1	14.5	14.0

E: MOFSL Estimates

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Avg Yield on Hsg Loans	11.0	10.5	9.6	9.7	9.7	8.9	7.9	8.5	8.8
Avg. Yield on Funds	11.0	10.5	9.4	9.5	9.4	8.5	7.8	8.3	8.6
Avg. Cost of funds	8.7	8.1	7.8	8.1	7.9	6.7	5.7	6.3	6.6
Interest Spread on loans	2.3	2.5	1.7	1.6	1.8	2.2	2.2	2.2	2.2
Net Interest Margin	3.4	3.4	2.7	2.8	2.7	2.9	3.0	3.1	3.0

Profitability Ratios (%)

RoAE	20.9	18.7	20.2	13.5	21.7	12.6	12.5	12.8	13.5
Core ROE	20.7	19.7	12.6	13.0	13.1	12.8	12.7	13.6	13.8
RoA	2.42	2.37	1.84	2.03	1.96	1.96	2.12	2.20	2.18
Core ROA	2.02	2.04	1.61	1.84	1.80	1.87	1.93	2.01	2.00

Efficiency Ratios (%)

Int. Expended/Int.Earned	69.0	67.7	70.9	70.9	70.9	65.7	61.0	63.4	65.0
Op. Exps./Net Income	6.6	6.8	11.1	9.6	5.4	9.2	9.8	9.8	9.6
Empl. Cost/Op. Exps.	46.0	46.5	72.0	48.2	39.6	50.8	51.2	50.3	49.4

Asset Quality (INR m)

Gross NPAs	19	24	41	48	89	116.2	128.8	122.3	1,22,637
Gross NPAs to Adv. (%)	0.7	0.8	1.1	1.2	2.0	2.3	2.3	1.9	1.7
Net NPAs	13	16	29	34	66	55.6	58.8	61.2	61,318
Net NPAs to Adv. (%)	0.5	0.6	0.8	0.8	1.5	1.1	1.0	1.0	0.8

VALUATION	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (INR)	227.7	274.7	391.1	451.7	537.9	609.3	663.7	716.0	790.3
Price-BV (x)				5.3	4.4	3.9	3.6	3.3	3.0
Adjusted BV* (INR)	176.6	220.1	340.2	352.4	399.0	465.1	520.2	572.5	648.2
Adj Price-ABV (x)				4.9	3.9	3.2	2.6	2.3	2.1
Adjusted EPS (INR)#	33.7	39.1	34.5	44.4	49.2	54.5	62.4	74.3	84.1
Adjusted EPS Growth YoY	8.2	15.9	-11.7	28.7	10.8	10.8	14.5	19.1	13.1
Adj Price-Adj EPS (x)				38.7	32.0	26.9	21.5	18.0	15.9
Dividend per share (INR)	17.0	18.0	20.0	21.0	21.0	23.0	30.0	33.3	37.1
Dividend yield (%)				0.9	0.9	1.0	1.3	1.4	1.6

E: MOFSL Estimates; * BV is adj. by ded. invt in Subs/Asso. from NW

Adjusted EPS is adjusting for dividend from key ventures and one offs

NOTES

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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