25 May 2023

Update | Sector: Financials

HDFC Bank

BSE SENSEX	S&P CNX
61,774	18,285

CMP: INR1,616 TP: INR1,950 (+21%) Buy

Getting bigger, stronger and faster

Well positioned to lead new-age banking

At its analyst day meet, HDFCB management highlighted how the bank is getting future-ready by focusing on strengthening its digital capabilities and sustainable growth after the merger while maintaining RoA at the current level. The bank plans to announce various new initiatives to provide a superior experience to customers. For the bank, technology has moved from being an enabler to being a driver of outcomes. The bank has emphasized that running the bank includes modernizing the existing infrastructure , along with building competencies and CoE. Growth is likely to be broad-based, mainly driven by technology and expanding distribution network, while improved cross-selling will further augment revenue growth. The bank highlighted that the cost-to-income (C/I) ratio may remain sticky for the near term but could decline to 30% over the next 10 years. HDFCB remains one of our preferred picks and we maintain our Buy rating with a TP of INR1,950.

Merger process on track; exciting growth opportunities to unfold

HDFCB suggested that the merger process is on track and is expected to be completed in about five weeks. The bank is positioning itself to capitalize on new growth opportunities in mortgage assets, higher cross-selling as customer stickiness improves, and faster growth in liabilities. Investments in branches and digital infrastructure will further support growth over the long term.

Retail assets: Delivering growth while maintaining high underwriting

Demand remains strong in the secured retail segment, and the bank suggested that there are 400-500m people yet to be tapped by the banking system. While competition has been high, HDFCB has been able to maintain pricing discipline. Unsecured retail has also witnessed new players and aggression in the sector, but a robust customer acquisition run rate (~1m a month) and state-of-the-art digital solutions across a gamut of retail products support strong growth momentum. The bank is looking to extend its digital 10-second personal loan product to new-to-bank (NTB) customers as well. Earlier, it introduced express car loans, digital loans against mutual funds (2018), digital loans against shares (2017), auto loans zip drive (2016) and 10 secured personal loans (2015). Its market share in credit cards/PL/vehicle loans/ mortgages remains low at 21%/14%/5%/2%, offering a strong opportunity to grow over the years. The bank highlighted that 66-70% of HDFC Ltd customers do not have a liability account with HDFC Bank.

Corporate segment growing at a healthy pace

HDFC Bank has reported 15% YoY growth in the corporate segment even as it let go of INR1t of growth opportunity in the corporate banking space. Key reasons for foregoing such growth were: 1) rates not favorable, 2) additional covenants, and 3) no cross-sell opportunity. In the large corporate credit base of INR38t, HDFCB has a 10.4% market share at INR4t. The bank had net NPAs of 0.25% in the corporate portfolio, while the credit cost was negative in FY23. PLI, asset monetization and initiatives around green energy will increase capex requirements in the upcoming years, with capex expected to grow to INR750b in FY24 and to peak at INR1.04t in FY25 (total estimate of ~INR4.6t over the next five years).

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	5513
M.Cap.(INRb)/(USDb)	9028.3 / 109.2
52-Week Range (INR)	1734 / 1272
1, 6, 12 Rel. Per (%)	-7/0/9
12M Avg Val (INR M)	13719
Free float (%)	79.1

Financials Snapshot (INR b)

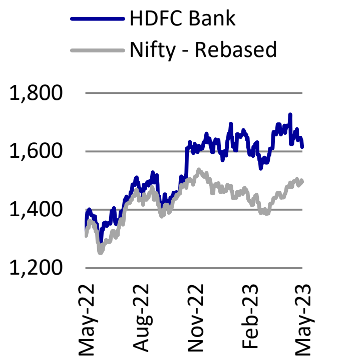
Y/E March	FY23	FY24E	FY25E
NII	868	1,039	1,228
OP	704	842	1,006
NP	441	526	630
NIM (%)	4.1	4.2	4.2
EPS (INR)	79.3	94.4	112.8
EPS Gr. (%)	18.6	19.0	19.6
BV/Sh. (INR)	502	587	689
ABV/Sh. (INR)	489	570	670
Ratios			
RoE (%)	17.0	17.3	17.7
RoA (%)	1.9	2.0	2.0
Valuations			
P/E(X)	21.4	17.9	15.0
P/BV (X)	3.4	2.9	2.5
P/ABV (X)	3.5	3.0	2.5

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	20.9	20.9	21.0
DII	23.1	23.0	20.1
FII	44.7	44.8	47.6
Others	11.3	11.4	11.3

FII Includes depository receipts

Stock Performance (1-year)



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Commercial and Rural Banking (CRB) to remain one of the fastest-growing portfolios with best return metrics

HDFCB is the largest MSME lender. It has increased its PSL mix from 30% to 36%. In FY23, the share of Core PSL in total advances stood at 60% v/s 33% in FY21. All segments under CRB made >3% pre-tax ROA and the management expects growth and profitability trends to remain strong. The GNPA ratio in the CRB segment fell to 1.52% in FY23 from 2.17% in FY19. HDFCB expects to double the CRB portfolio over the next three years, supported by robust distribution and increasing branch presence. The bank is already at the number one position and is looking at 3x business potential over the next five years.

C/I ratio may remain sticky in short term but could decline to unbelievable 30% over 10 years

HDFCB has guided that investments in business will continue at a steady pace. It will continue to open 1,500 branches every year and is looking at building capacity to sustain growth over the next 8-10 years. The C/I ratio may increase a bit in the near term but is expected to moderate to ~30% over 10 years, aided by 1) the merger, 2) operating leverage, 3) improved cross-selling, and 4) digitization benefits.

Liabilities: market share gains to continue

The bank highlighted that branch deposits compound with time, with branches having higher vintage garnering significantly more deposits v/s the new branches. The bank has expanded its branch network by 2.6x in the last decade, while deposits per branch have grown by 150%over the past ten years. The mix of retail deposits increased to 83% in FY23 from 81% in FY22. The bank aims to maintain a healthy CASA ratio in 40s, even as it continues to raise deposits at an accelerated pace. Margins, though, may come down after the merger to 3.8%, mainly due to a change in the business mix rather than any material change in the cost of funds.

Growth outlook steady; Guides for stable RoA from Day Zero post merger

The bank is on track to deliver sustainable growth after the merger. It is focusing on preserving profitability without sacrificing margin. In FY23, the bank let go of opportunities of ~INR1t in advances in corporate banking as the loans did not fit its profitability threshold. The bank indicated that after the merger, while RoE will go down due to higher capitalization, RoA will remain stable even from Day Zero (1.9%-2.1%). However, the power of bundling and improved operating leverage will boost profitability over the medium term.

Subsidiaries to witness higher business traction; counter share for HDFC Life to increase

After the merger, the focus on subsidiaries is going to increase with better alignment of business interests. HDFC Life, in particular, will start getting more preference in terms of business volumes, and its counter share will increase.

Valuation and view

HDFCB appears well positioned to sustain healthy growth, supported by new initiatives, robust branch additions and expansion of digital offerings. It has delivered strong business growth v/s peers, resulting in constant market share gains. This was propelled by sustained momentum in the Retail segment, along with robust growth in Commercial and Rural Banking. Asset quality ratios remain robust, while the restructured book has moderated to 31bp of loans. Healthy PCR and a contingent provisioning buffer should support asset quality. We estimate HDFCB to deliver a ~19% PAT CAGR over FY23-25, with RoA of ~2%. HDFCB remains one of our preferred picks and we maintain our Buy rating with a TP of INR1,950 (3.0x Sep'24E ABV).

Key takeaways from the session with the top management

Opening session by Mr. Sashidhar Jagdishan, MD & CEO; Mr. Kaizad Bharucha, Executive Director; and Mr. Srinivasan Vaidyanathan, CFO

- The merger process is on track and is expected to be completed in 4-5 weeks.
- Credit growth is mirroring GDP growth with a multiplier of ~2x. Over the past five years, the credit growth to GDP multiplier is 2.4x.
- There is potential to extend credit to 400mn-500mn individuals.
- MSME growth has been quite steady. Though the sector is not the best in terms of asset quality, HDFCB has been able to underwrite in a better way.
- It is well positioned to sustainably grow in the retail segment: In the secured retail segment, demand seems to be outstripping supply, and while competition has been high, the bank has been able to maintain pricing discipline. The unsecured retail segment has witnessed new players and energy. HDFCB follows a three-pronged strategy in retail: 1) Digital – 10-second loans since 2015; NTB 10-second loan is a game-changer; 2) the bank remains conservative on underwriting and only on-board customers filtered through its risk-parameters; and 3) market share in credit cards/PL/vehicle loans/mortgages remains low at 21%/14%/5%/2%, offering strong opportunity to grow over the years.
- The C/I ratio may remain sticky in the short term but could decline to unbelievable 30% over 10 years. HDFCB has guided that investments in business will continue at a steady pace. It will continue to open 1,500 branches every year and is looking at building capacity to sustain growth over the next 8-10 years. The C/I ratio may increase a bit in the near term but is expected to moderate to ~30% over 10 years, aided by 1) the merger, 2) operating leverage, 3) improved cross-selling, and 4) digitization benefits.
- Other takeaways: HDFCB has 83mn customers and is adding 1mn customer per month. HDFC Housing has 5mn customers, HDFC Life has 6m, HDFC Ergo has 15m and HDFC MF has 7m. Unique customers across the group are >100m, which provides a significant opportunity to cross-sell.
- Digital use is becoming pervasive – In four years, the bank expects that there will not be a teller at all.
- Service mindset leads to meeting customer needs: Increase in customer wallet share -> Increase in product holding -> Increase in customer retention
- Branch deposits compound with time. The bank has expanded its branch network by 2.6x in the last decade, while deposits per branch have grown by 150%. The mix of retail deposits increased to 83% in FY23 from 81% in FY22. The bank aims to maintain a healthy CASA ratio in 40s, even as it continues to raise deposits at an accelerated pace. Margins, though, may come down after the merger to 3.8%, mainly due to a change in the business mix rather than any material change in the cost of funds.
- The bank is on track to deliver sustainable growth after the merger. While RoE will go down due to higher capitalization, RoA will remain stable even from Day Zero (1.9% - 2.1%). However, the power of bundling will boost profitability over the medium term.
- Branch break-even is happening at a much faster rate.

- After the merger, the focus on subsidiaries is going to increase with better alignment of business interests. HDFC Life, in particular, will start getting more preference in terms of business volumes, and its counter share will increase.

Session #2: Corporate Cluster

- The target segment in the corporate book has been large corporates with revenue greater than INR10b.
- Market Share: Cash Management stands at 35%, Exports at 20% and imports at 18%.
- System credit growth for large corporates has been 3%, while HDFCB has grown by 12%; the bank has foregone INR1t of additional loans in FY23.
- Reasons for foregoing these loans: Rates not favorable for the bank; certain additional covenants that bank require which customer is not willing; the bank does not see a cross sell opportunity.
- About 98% of NBFC exposure in AA and higher rated companies. About 50% of NBFC exposure is to government-promoted companies.
- The bank has maintained its pristine quality with NPA at ~0.25% of the book and the entire book rating between AA to AA+.
- On terminal maturity, 21% of the book has maturity of less than 1yr, 37% of the book is maturing in 1-5yrs and 42% of book maturity is exceeding 5yr.
- About 89% of the book is floating rate linked to MCLR, Repo and T-Bill, with re-priced tenor up to 1yr.
- Total growth in trade was 16% YoY in FY23 and digital growth was 21% YoY.
- The bank is providing IDPMS/ EDPMS paperless digital solutions. It prefers domestic guarantees, given the lower risk as compared to international guarantees.
- The bank has seen 25% YoY growth in its collection volumes.
- Statutory payments have grown by 40% YoY and the bank was one of the largest banks for statutory payments in FY23.
- It has converted 208 out of 617 corporates in FY23, which the bank was eyeing in FY22.
- About 60% of the corporates have their salary segments with the bank, and the balance has grown to ~1.2 times in FY23 to what it was before.
- The bank earns 57% of revenue from assets and the remaining 43% from liability (11%), cross-sell (24%) and fees and commissions (8%).
- The corporate book is the lowest C/I business for the bank due to its long tenure and large ticket size.
- Around 95% of transactions are digital and 90% of trade volumes are on ToN as of FY23.
- PLI, asset monetization and initiatives around green energy will increase capex requirement in the upcoming years.
- About 30-32% of the incremental yearly income comes from NTB customers.
- The bank expects a tight liquidity situation going forward and will be selective on choosing its assets while still achieving its expected growth.
- Capex is expected to grow to INR750b in FY24 and to peak at INR1.04t in FY25 and to reach ~INR4.6t over the next five years.
- Around 80% of the supply chain finance has been digital. Fintech collaborations will help the bank increase its reach in this segment.

- Future of Corporate Bank: increase in share of wallet, preferred bankers to MNC, opportunities in PLI, supply chain finance, NTB clients.
- The size of its credit substitute book is ~INR600b out of INR4.1t outstanding loans.

Session #3: Commercial and Rural Banking

- The bank is the no. 1 in MSME lender and financier in the CVCE space.
- The bank has the highest ECLGS disbursement.
- Bank got CGTMSE award- “Best Guarantee Coverage FY 23”.
- #1 achievement in last three AIF campaigns.
- CRB Goals: Organic PSL increased from 30% to 36% over the past two years. During FY23 the proportion of Core PSL to total advances stood at 60% vs 33% in FY21.
- The bank’s clockwork growth stood at 29.2% in Mar’23.
- CRB has over 3% pre-tax RoA in all business segments. Last year, it was significantly higher.
- The GNPA ratio in CRB fell to 1.52% in FY23 from 2.17% in FY19. Excluding Agri, it declined from 1.6% to 1.08% over these two years.
- The bank’s presence has increased from 128 in FY21 to 284 cities in FY23 in the ECG division. For the BBG+EEG division, it has increase from 627 in FY21 to 688 in FY23.
- HDFCB has a mission 1+1 new customer acquisition plan in FY24 and doubling of customer base from FY22.
- The bank achieved a 50%+ market share increase in two years (32.66% CAGR in two years).
- Its 3,364 branches have an over 25% share of MSME in their asset book. The branch number has increased by more than 1,000 over the past one year.
- The bank plans to increase its village network to 225k by FY24 from 165k in FY23.
- KCC market share currently stands at 7.3% and the bank is aiming to increase it to 9% by FY24.
- The bank expects 3x growth in the market position over the next five years.
- In the origination and login, 90% is digital; in documentation and disbursement, 75% is digital.
- Between FY23 and FY26, the bank is again booking 2x growth in CRB book.
- CRB shows asset growth of ~30%, self-funding of ~100%, and PSL >80% in FY23.
- The focus on DBT linkage is high; currently the max is 65% and the bank wants to take it up to over 90%.
- For every farmer, the bank targets two saving accounts for both husband and wife, with focus on having savings account balance of INR2.5k each.
- Total agriculture produce in the country is 35-40t, with a 50% share of small- and mid-size farmers at INR20t (INR5t cereals; remaining is vegetables, fruits and other produce).

Session #4: Retail Assets

- The bank has introduced a complete digital end-to-end personal loan for NTB open market customers. Earlier the bank introduced express car loans, digital loans against mutual funds (2018), digital loans against shares (2017), auto loans zip drive (2016) and 10- secured personal loans (2015).
- The bank has 52,000+ customers and 4,800 cr+ disbursals.
- The core retail strategy is based on optimal pricing of risk. In almost each product, a significant contribution comes from customers with a credit score of over 760.
- If HDFCB is benchmarked No. 1, the industry underwrites personal loans to customers with a credit score of 0.65.
- The bank's delinquency is the lowest in the industry; it is nearly half of competition in spite of high concentration of unsecured book (much better than pre-Covid levels across segments).
- The fundamental philosophy of the merger is to leverage mutual strength.
- About 66-70% customers of HDFC Ltd do not have a liability account with the bank.
- It plans to strengthen digital adoption with analytics to improve processing time and customer experience.
- Personal loans have a 3-5-year vision to sustain growth at healthy levels; 10-second loan is for NTB open market customers.
- The bank has seen a 3x increase in the distribution area.
- It is working on increasing its penetration in government salary accounts.
- The bank has 4,219 active gold loan centers in 2,012 cities. It plans to add 1,000 gold loans centers in FY24.
- The Housing and Unsecured segments are likely to grow at a faster pace than the overall bank.
- LAP over the last two years is doing well and the segment is likely to do well going forward.
- HDFC Ltd customers will also get pre-approved offers, which will aid in overall cross-selling.

Session #5: Retail Customer Franchise and Life Cycle Management

- The bank added 10m CASA accounts in FY23. As of 9MFY23, the bank had a 33.7% market share in the incremental CASA deposits and a 20.7% share in incremental total deposits.
- Retail deposits grew by 24% YoY in FY23.
- The bank has a multi-variant model, leading to more accurate identification of high potential markets. About 80% of the expansion has been done in the high potential pin-codes.
- The breakeven period for the branches has been reducing drastically.
- It aims to reach 6,000 cities in the next 24 months v/s 4,080 cities as on Mar'23.
- In FY23, the bank disbursed 117,000 assets.
- The managed liability book has grown by 1.7x in the last three years to INR1.7t in FY23, with the number of high-net-worth customers increasing to 135,000 in FY23 from 104,000 in FY20.
- BizXpress is a new product to be launched in Jun'23, which provides many solutions to customers.

- SURU (Semi Urban and Rural) deposits have grown by 25% YoY v/s 8% growth for the industry.
- SURU wholesale asset disbursals have grown by 40% YoY, while retail disbursals have grown by 29% YoY.
- It added 908 new branches in SURU locations in FY23, which is 62% of all India expansion in SURU.
- The bank has a credible strategy in place and expects to deliver 1.5-2x higher than industry growth. It plans to double the franchise in the SURU regions in the next three years.

Session #6: Government and Institutional Business

- In 2018, the bank built up the Alternate Banking & Partnerships channel.
- The bank expects the business to cross 6.5m products and 50,000cr of liabilities & asset disbursals in FY24, and 9-10m products in FY25.
- In addition, the bank has built its model distribution ashubs and spoke with the branches to cover all active panchayats.
- Mobile penetration and data consumption in rural is the highest compared to anywhere in the world.
- Multiple regional and state level tie-ups to increase and reach a wide range.
- The extension to existing segments includes govt. department collectorates, defense & paramilitary forces, FPOs, influencer segment, and railways.
- The bank is currently live with eight products and the rest of the products and services will go live by the end of FY24 in a phased manner.
- The bank has Single API integration with corporates and its GTM is reduced to one week from 8-10 weeks earlier.
- A platform is built to sell products for all the verticals in the bank through partners.
- Around 68% of total assets are disbursed under PSL.
- Unbanked rural centers opened for bank resulting in cost savings.
- In this channel, there is no cost of infrastructure, no fixed cost, and low acquisition costs. Also, there is digitalization of panchayats and villages and elimination of middle men.
- It has an over 30% market share in Govt. fund flows to states and the focus will increase further.
- The bank has an 8% market share in total Govt. deposits in the banking industry.
- Government fund flow to states: HDFCB has a 36% market share in the Center-sponsored schemes.
- In welfare schemes, HDFCB is #2 after SBI.
- Customers paying custom duty have ATS 2.2x and GST 2.7x to the ones not paying through the bank.
- HDFCB is #1 in terms of direct tax collections.
- The bank is currently empanelled for 13 states to collect taxes.
- The bank has empanelled to open e-freight accounts across 16 Railway zones as it has integrated with Indian Railways for e-freight charges collection.

Session #7: Wealth Business

- The bank is now offering wealth products in 923 locations across the country and plans to reach +1,200 locations in FY24.
- The bank has reported 18% YoY growth in Wealth MF and Alternate AUM business in FY23.
- Active wealth AUM stood at INR730b as of FY23.
- The number of customers grew to 141,000 in FY23 from 85,000 in FY21 (29% CAGR).
- Alternate Products contribute 10% to the total wealth AUM.
- Its market share in MF distribution (in terms of AUM) increased to 5% in FY23 from 4.6% in FY21.
- HDFC Bank SmartWealth app will be launched by 2QFY24/3QFY24, which will provide customers with features such as goal setting, risk profiling, curated and seamless investments, portfolio snapshot and on-going monitoring (all-in-one app to create customize financial goals).
- Individual investors' average AUM grew to INR23t in FY23 from INR17t in FY21 (16% CAGR), with the share of Individual Assets at 58% in FY23.
- Distributor-to-Direct acquisition mix for Individual AUM stands at 77:23.
- The bank will serve its wealth customers depending on the annual household income:
- Over USD40,000 are served by dedicated wealth relationship managers, managing the client's portfolio holistically;
- USD8,500-USD40,000 will be catered by SmartWealth application assisted through virtual wealth relationship managers;
- USD4,000-USD8,500 will be catered by unassisted digital journey through SmartWealth app.
- The bank expects the USD8,500-USD40,000 income category to cover 44% of the total households in the Wealth Business by FY30.

Session #8: IT & Digital Initiatives

- Technology has moved from being an enabler to being a driver of outcomes for the bank.
- Running the bank includes modernizing the existing bank and building competencies and CoE.
- Nurturing tech talent and continuously upskilling – new technologies for a key part of the approach
- About 95% of transactions in HDFCB were digital in FY23 v/s 90% in FY21.
- Around 74% of business acquisition was done digitally v/s 56% in FY21.
- NPS score has improved to 1.2x, while the bank has a Play Store rating of 4.3.
- It serves 12m customers and processes 22m transactions per month via digital channels.
- Digital product launches: (i) X-press car loans – 30% of customers are NTB and bank takes less than five minutes for video KYC and <30min for total paperless processing; (ii) HDFC Bank ONE – 12.5m+ customers with 22+m interactions; (iii) Smart Hub – Payments platform for merchants; the bank has 150k merchants and processes INR120b+ per month; (iv) Payzapp: 1.1m customers in 45 days; average customer spending up 1.5x; this is the first app by the bank that is enabled with RuPay credit cards for UPI payments.

- The digital acquisition platform is boosting throughput – the bank has digitally sold 510k units of various products and originated 650k credit cards digitally.
- It is further looking to launch more digital apps like Smart Wealth, Smart Saathi, Sky program, etc.

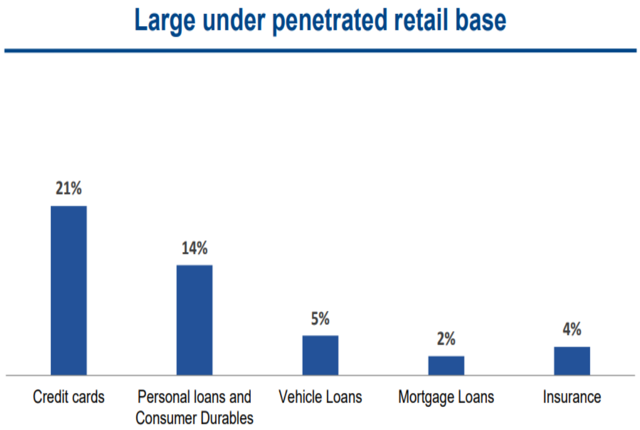
Corporate and Wholesale Banking:

- CBX is one of the largest corporate transaction platforms with resilience at scale. 450m+ corporate payment transactions were done in FY23.
- Trade flow: State-of-the-art Trade Finance Solution - Saves 20mins per eligible transaction. The bank processes 6k-7k transactions per day.
- Supply Chain Finance – one of the fastest-growing invoice discounting platforms witnessing 4x YoY growth in volumes
- Pricing engine built – suggests appropriate fund-based and non-fund based pricing to RMs
- Data Lake: Migration of on-prem data warehouse to cloud for real time available of data.
- Bank is gearing up for the next wave of digital growth from 800m+ transactions a month currently to 4b+ in the future.
- Talent: HDFCB hires the majority of its tech staff from IT, e-commerce companies, start-ups and coders, while a smaller proportion is hired from peers.

Session #9: Payment Business

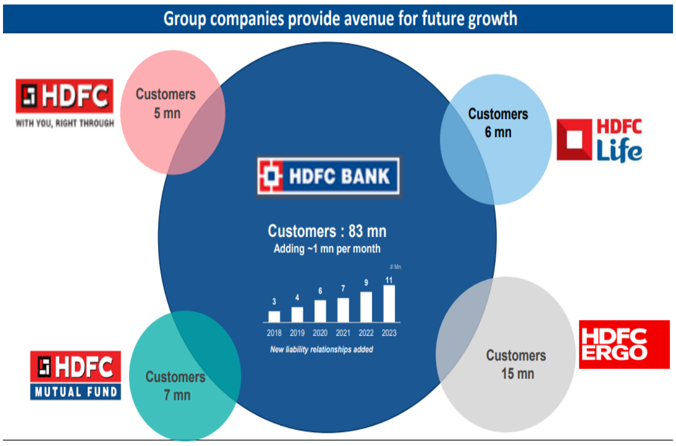
- The bank has a leadership position in credit cards with a 28.6% market share. It is number one in commercial cards and number two in debit cards (17% market share).
- Number 1 in CC EMI – 44% market share; Number 1 in DC EMI – Online market share.
- CD – Market share is 10%.
- UPI (P2M) – the bank has a 12% market share. In EPI, the market share is 25%.
- About 46%/47% market share in offline/online card acceptance
- The bank processed INR4t spends on credit card, INR1.12t on debit card, INR5.5t on EPI and INR15.2t on UPI, thus making total payments of INR26t in FY23.
- Credit card book stands at 80k cr
- Spending per card has increased to INR24.2k from INR22.8k in FY22.
- About 66% of new cards were issued to NTC customers in FY23(v/s 58% in FY22).
- NTB customer mix stood at 19% in FY23 v/s 11% in FY22.
- AMB of cards customers grew to 2.3L in FY23 v/s 1.7L in FY22.
- Digital acquisition of merchants and merchant lending picked up pace in FY23, with both metrics reporting robust growth.
- A 360-degree comprehensive strategy has six pillars: 1) quality & scale, 2) comprehensive portfolio, 3) customer delight, 4) excellence in product value proposition, 5) platform & partnerships, and 6) digital transformation

Exhibit 1: <3% Bank customers have a home loan with HDFC



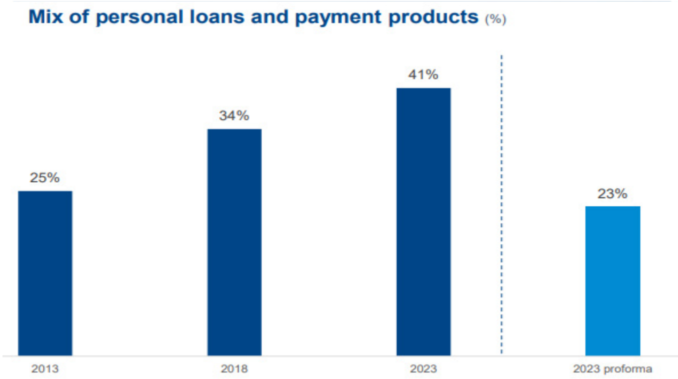
Source: MOFSL, Company

Exhibit 2: Huge opportunity, even at existing customer base



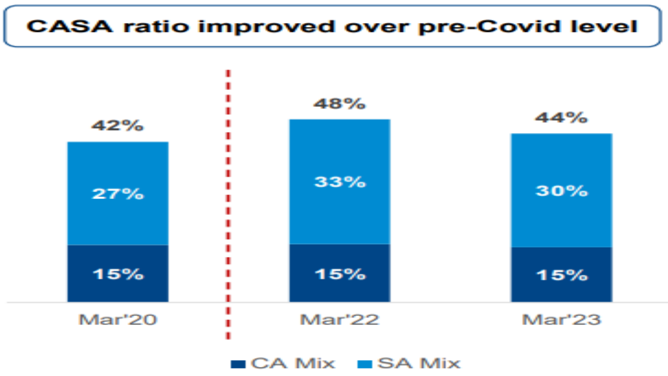
Source: MOFSL, Company

Exhibit 3: Personal loans share to come down post merger



Source: MOFSL, Company

Exhibit 4: CASA ratio improved over pre-Covid level



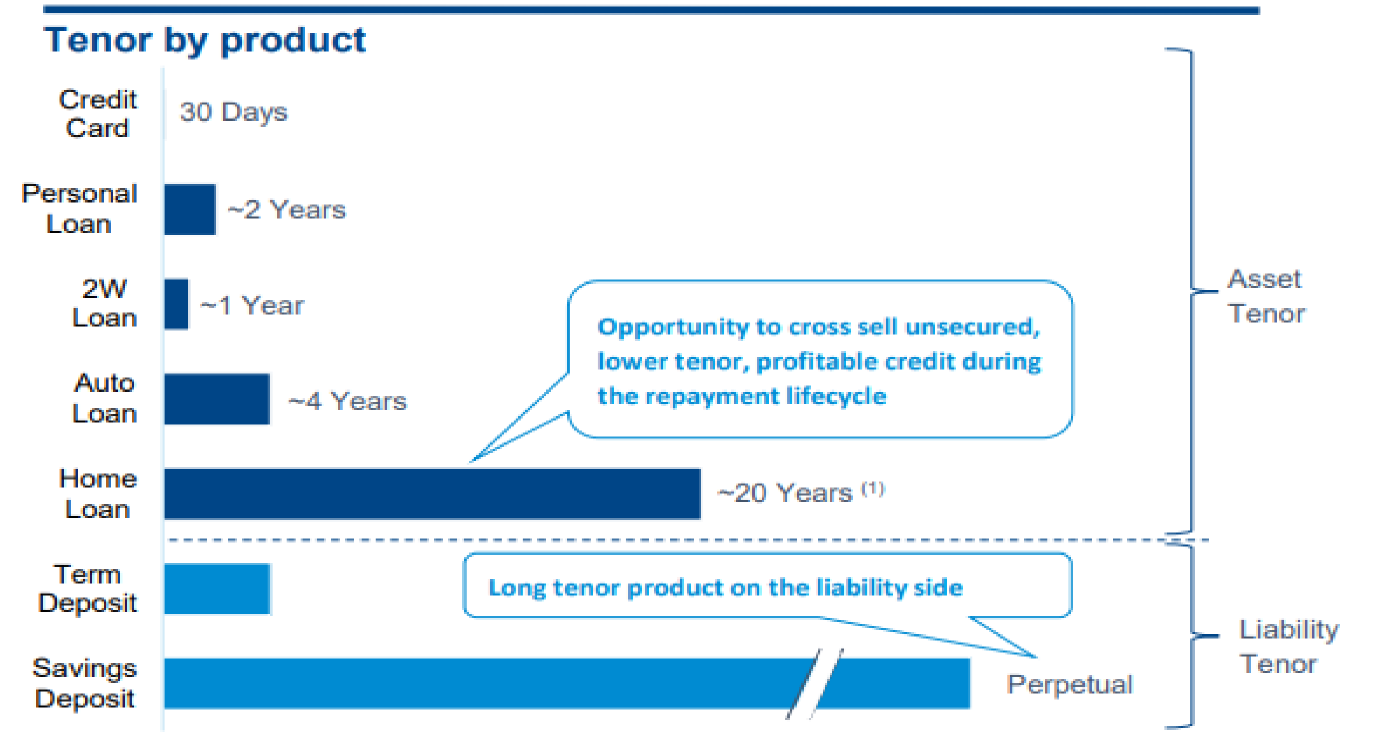
Source: MOFSL, Company

Exhibit 5: Sustained loan growth across segments

Loans (Rs. bn)	Mar'21	Mar'22	Mar'23	FY'22 YoY	FY'23 YoY
Retail	4,617	5,318	6,346	15%	19%
CRB	3,717	4,847	6,292	30%	30%
Wholesale	3,099	3,640	4,097	17%	13%
Gross loans (pre IBPS/BRDS)	***11,433***	***13,805***	***16,735***	***21%***	***21%***
IBPC/BRDS	-	-	(592)	-	-
Total	**11,433**	**13,805**	**16,142**	**21%**	**17%**

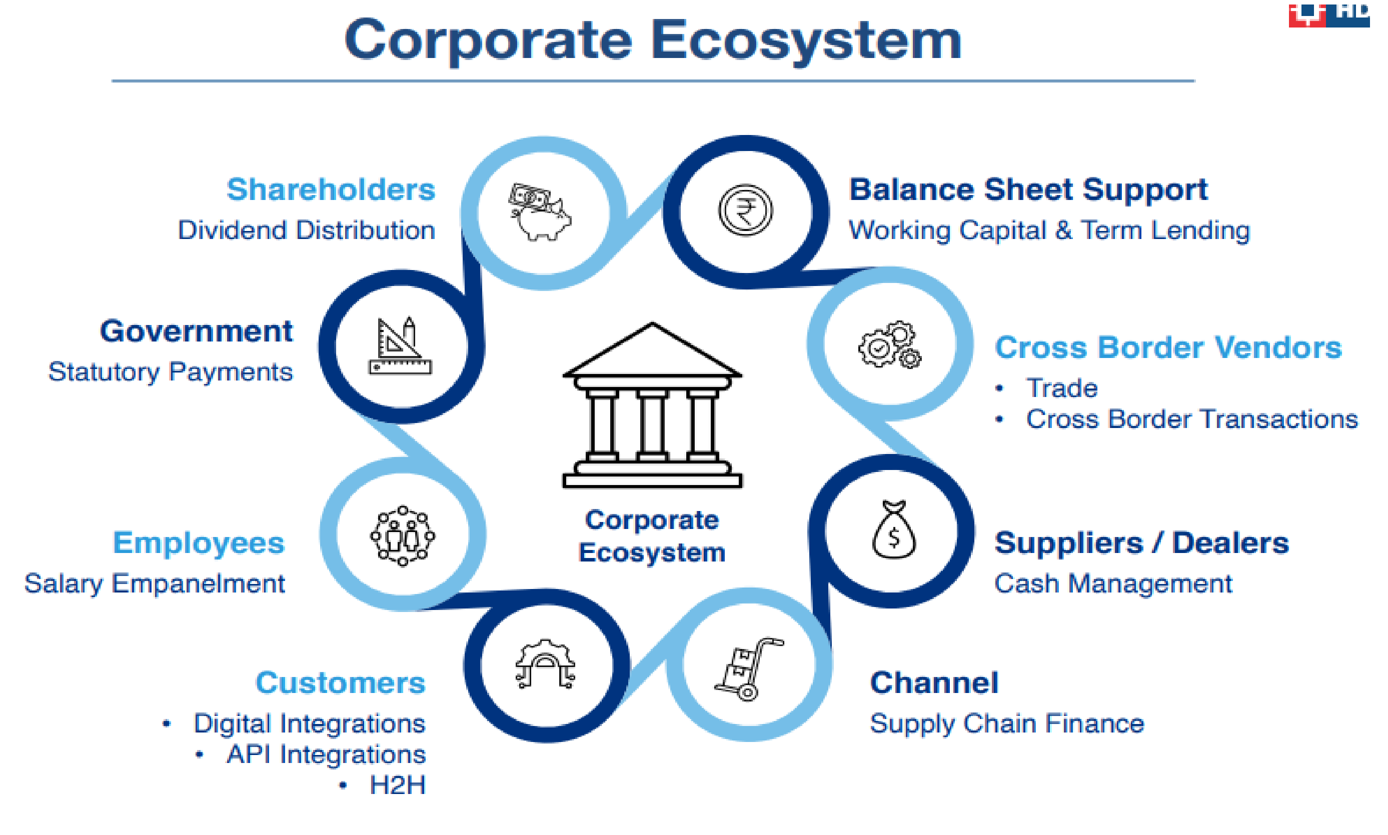
Source: MOFSL, Company

Exhibit 6: Long tenor mortgage makes the customer sticky, enables enhanced products cross-sell



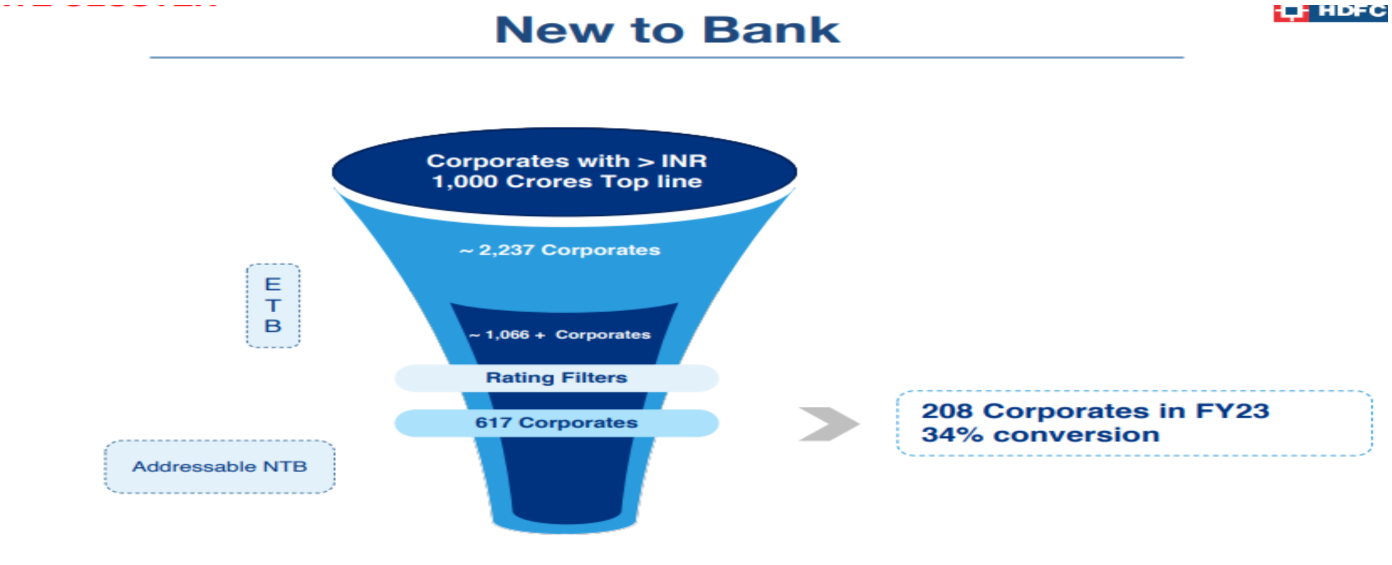
Source: MOFSL, Company

Exhibit 7: Corporate business attractive due to wide range of customer engagement



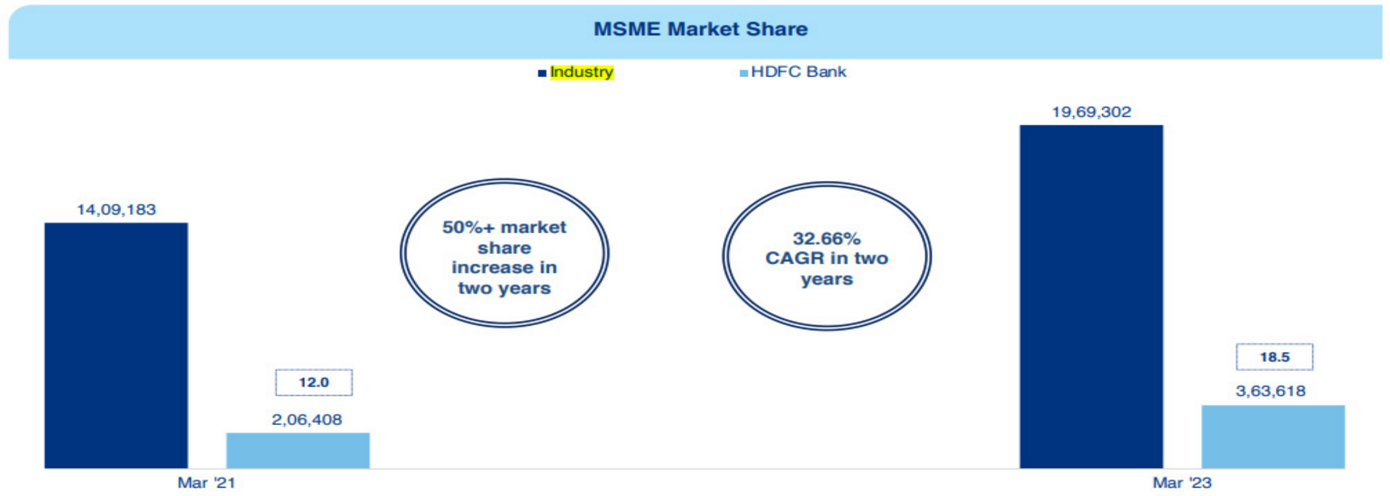
Source: MOFSL, Company

Exhibit 8: NTB segment presents huge scope for growth - ~3x of existing book



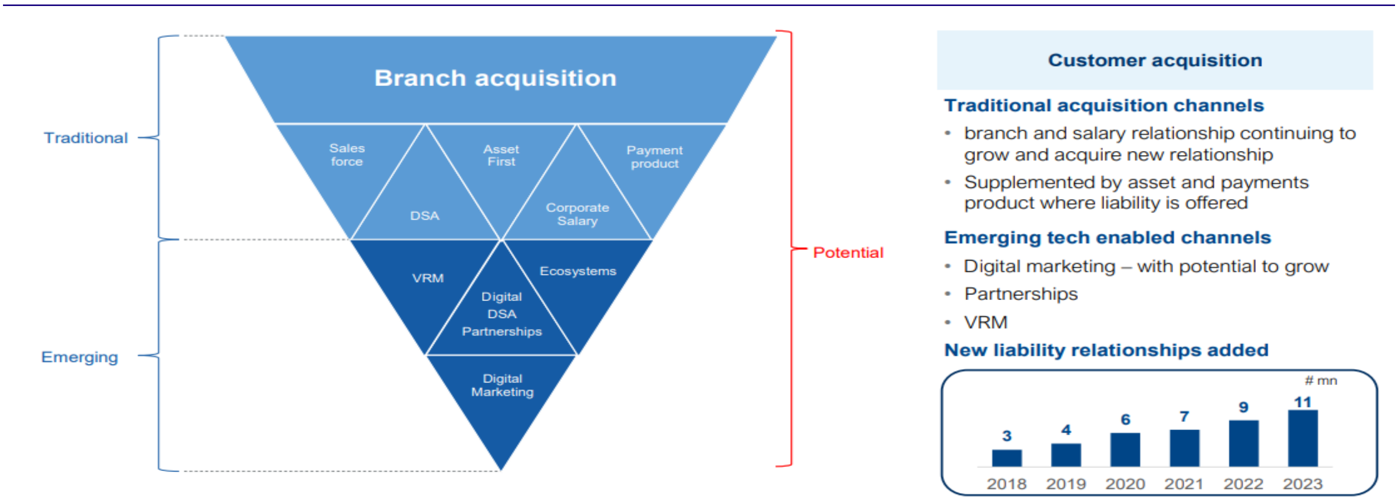
Source: MOFSL, Company

Exhibit 9: Market share of MSME over two years



Source: MOFSL, Company

Exhibit 10: Strong customer acquisition-hybrid model

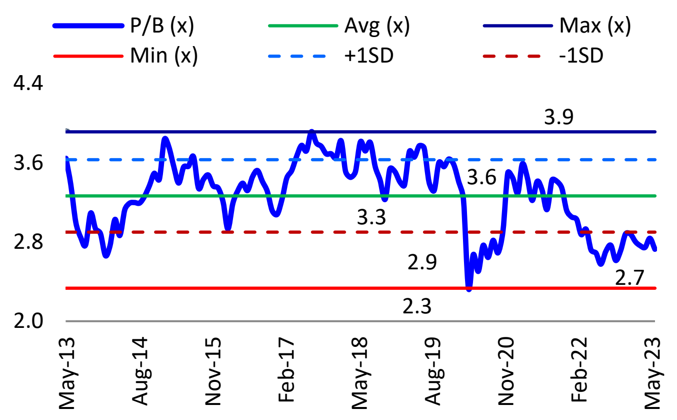


Source: MOFSL, Company

Valuation and view

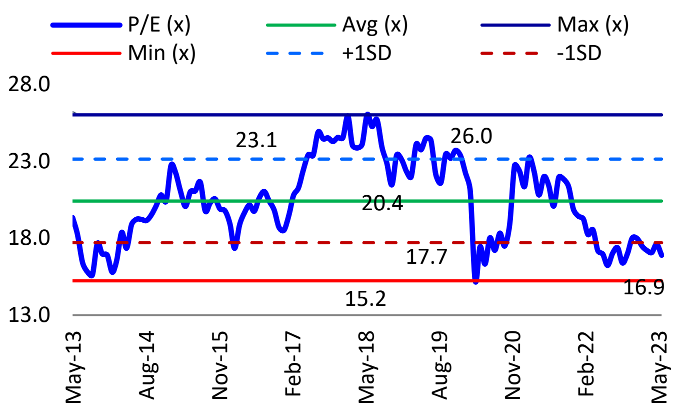
- HDFCB delivered a healthy growth in advances in 4QFY23, led by sustained momentum in Retail loans. Growth in Commercial and Rural Banking saw robust trends, even as corporate advances witnessed a healthy traction. We expect loan growth to stay healthy and estimate an 18% loan CAGR over FY23-25. Deposit traction remains healthy, coupled with a healthy CASA mix, 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 stable QoQ and we expect a gradual increase in margin aided by: 1) a controlled rise in the cost of funds on account of a strong and granular liability franchise, and 2) 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 gain incremental market share.
- Asset quality improved over 4QFY23, as slippages moderated and recoveries and upgrades remained healthy. GNPA/NNPA ratios improved to 1.12%/0.27%. The Restructuring book fell to ~INR50b (31bp of loans). PCR improved to ~76%, which, along with a floating provision of INR14.5b and a contingent provision of 61bp of loans, will keep credit costs in check and limit the impact on profitability.
- **Buy with a TP of INR1,950:** HDFCB reported an in-line quarter with healthy growth in NII, even as margins remained stable. Core PPoP growth was modest. Loan growth was driven by sustained momentum in the Retail segment and robust growth in Commercial and Rural Banking. Asset quality ratios remained robust, while the restructured book moderated to 31bp of loans. Healthy PCR and a contingent provisioning buffer should support asset quality. We maintain our earnings estimates for HDFCB and expect the bank to deliver a ~19% PAT CAGR over FY23-25, with RoA/RoE of 2.0%/17.7% in FY25. We maintain our Buy rating with a TP of INR1,950 (premised on 3.0x Sep'24E ABV). A pickup in margin and progress on the merger would be key monitorables.

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Exhibit 13: DuPont Analysis – return ratios to improve steadily

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	8.32	8.57	8.27	7.38	6.70	7.13	7.59	7.75
Interest Expense	4.17	4.40	4.23	3.42	2.92	3.30	3.70	3.82
Net Interest Income	**4.16**	**4.18**	**4.05**	**3.96**	**3.77**	**3.83**	**3.89**	**3.94**
Core Fee Income	1.31	1.34	1.38	1.15	1.22	1.06	1.05	1.06
Trading and others	0.27	0.19	0.30	0.39	0.33	0.31	0.31	0.30
Non-Interest income	**1.58**	**1.53**	**1.68**	**1.54**	**1.55**	**1.38**	**1.36**	**1.36**
Total Income	**5.74**	**5.71**	**5.73**	**5.50**	**5.32**	**5.21**	**5.25**	**5.29**
Operating Expenses	**2.35**	**2.26**	**2.21**	**2.00**	**1.96**	**2.10**	**2.10**	**2.07**
Employee cost	0.71	0.67	0.69	0.63	0.63	0.68	0.65	0.65
Others	1.65	1.59	1.53	1.36	1.33	1.42	1.44	1.42
Operating Profits	**3.38**	**3.44**	**3.51**	**3.50**	**3.36**	**3.11**	**3.15**	**3.23**
Core operating Profits	**3.11**	**3.26**	**3.22**	**3.11**	**3.03**	**2.79**	**2.84**	**2.92**
Provisions	**0.61**	**0.65**	**0.88**	**0.96**	**0.79**	**0.53**	**0.54**	**0.55**
PBT	**2.77**	**2.79**	**2.64**	**2.54**	**2.57**	**2.58**	**2.61**	**2.68**
Tax	0.96	0.96	0.75	0.64	0.63	0.63	0.64	0.66
RoA	**1.81**	**1.83**	**1.89**	**1.90**	**1.94**	**1.95**	**1.97**	**2.02**
Leverage (x)	9.8	9.0	8.7	8.7	8.6	8.7	8.8	8.8
RoE	**17.9**	**16.5**	**16.4**	**16.6**	**16.7**	**17.0**	**17.3**	**17.7**

Financials and valuations

Income Statement (INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	802.4	989.7	1,148.1	1,208.6	1,277.5	1,615.9	2,028.6	2,419.1
Interest Expense	401.5	507.3	586.3	559.8	557.4	747.4	989.3	1,191.0
Net Interest Income	**400.9**	**482.4**	**561.9**	**648.8**	**720.1**	**868.4**	**1,039.3**	**1,228.1**
Growth (%)	21.0	20.3	16.5	15.5	11.0	20.6	19.7	18.2
Non-Interest Income	152.2	176.3	232.6	252.0	295.1	312.1	362.1	423.6
Total Income	**553.2**	**658.7**	**794.5**	**900.8**	**1,015.2**	**1,180.6**	**1,401.3**	**1,651.7**
Growth (%)	21.7	19.1	20.6	13.4	12.7	16.3	18.7	17.9
Operating Expenses	226.9	261.2	307.0	327.2	374.4	476.5	559.8	645.6
Pre Provision Profits	**326.2**	**397.5**	**487.5**	**573.6**	**640.8**	**704.0**	**841.6**	**1,006.1**
Growth (%)	26.8	21.8	22.6	17.7	11.7	9.9	19.5	19.5
Core PPP	**311.0**	**380.3**	**465.9**	**549.2**	**601.7**	**659.2**	**788.5**	**943.6**
Growth (%)	40.8	22.3	22.5	17.9	9.6	9.6	19.6	19.7
Provisions	59.3	75.5	121.4	157.0	150.6	119.2	143.3	171.0
PBT	**267.0**	**322.0**	**366.1**	**416.6**	**490.2**	**584.9**	**698.2**	**835.1**
Tax	92.1	111.2	103.5	105.4	120.5	143.8	171.8	205.4
Tax Rate (%)	34.5	34.5	28.3	25.3	24.6	24.6	24.6	24.6
PAT	**174.9**	**210.8**	**262.6**	**311.2**	**369.6**	**441.1**	**526.5**	**629.7**
Growth (%)	20.2	20.5	24.6	18.5	18.8	19.3	19.4	19.6

Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5.2	5.4	5.5	5.5	5.5	5.6	5.6	5.6
Reserves & Surplus	1,057.8	1,486.6	1,704.4	2,031.7	2,395.4	2,796.4	3,267.1	3,836.8
Net Worth	**1,063.0**	**1,492.1**	**1,709.9**	**2,037.2**	**2,400.9**	**2,802.0**	**3,272.7**	**3,842.3**
Deposits	7,887.7	9,231.4	11,475.0	13,350.6	15,592.2	18,833.9	22,129.9	26,002.6
Growth (%)	22.5	17.0	24.3	16.3	16.8	20.8	17.5	17.5
of which CASA Deposits	3,430.9	3,912.0	4,846.3	6,156.8	7,510.5	8,359.9	9,427.3	11,441.2
Growth (%)	11.0	14.0	23.9	27.0	22.0	11.3	12.8	21.4
Borrowings	1,231.0	1,170.9	1,446.3	1,354.9	1,848.2	2,067.7	2,317.4	2,612.8
Other Liabilities & Prov.	457.6	551.1	673.9	726.0	844.1	957.2	1,052.9	1,158.2
Total Liabilities	**10,639.3**	**12,445.4**	**15,305.1**	**17,468.7**	**20,685.4**	**24,660.8**	**28,772.9**	**33,616.0**
Current Assets	1,229.2	813.5	866.2	1,194.7	1,523.3	1,937.7	1,809.1	2,117.5
Investments	2,422.0	2,931.2	3,918.3	4,437.3	4,555.4	5,170.0	6,100.6	7,198.7
Growth (%)	12.9	21.0	33.7	13.2	2.7	13.5	18.0	18.0
Loans	6,583.3	8,194.0	9,937.0	11,328.4	13,688.2	16,005.9	18,886.9	22,286.6
Growth (%)	18.7	24.5	21.3	14.0	20.8	16.9	18.0	18.0
Fixed Assets	36.1	40.3	44.3	49.1	60.8	80.2	89.8	100.6
Other Assets	368.8	466.5	539.3	459.3	857.7	1,467.1	1,886.5	1,912.6
Total Assets	**10,639.3**	**12,445.4**	**15,305.1**	**17,468.7**	**20,685.4**	**24,660.8**	**28,772.9**	**33,616.0**

Asset Quality

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA	86.1	112.2	126.5	150.9	161.4	180.2	223.3	264.1
NNPA	26.0	32.1	35.4	45.5	44.1	43.7	58.0	65.9
GNPA Ratio	1.3	1.4	1.3	1.3	1.2	1.1	1.2	1.2
NNPA Ratio	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Slippage Ratio	2.1	1.9	1.9	1.5	2.1	1.7	1.6	1.5
Credit Cost	0.8	0.9	1.3	1.5	1.2	0.8	0.8	0.8
PCR (Excl. Tech. write off)	69.8	71.4	72.0	69.8	72.7	75.8	74.0	75.0

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Yield & Cost Ratios (%)								
Avg. Yield-Earning Assets	**9.4**	**9.6**	**9.0**	**8.1**	**7.4**	**8.0**	**8.6**	**8.8**
Avg. Yield on loans	10.3	10.5	10.1	8.9	7.9	8.6	9.3	9.3
Avg. Yield on Inv.	7.2	7.6	6.1	5.6	5.8	6.5	6.9	7.1
Avg. Cost-Int. Bear. Liab.	**4.9**	**5.2**	**5.0**	**4.1**	**3.5**	**3.9**	**4.4**	**4.5**
Avg. Cost of Deposits	4.6	4.8	4.9	4.0	3.4	3.9	4.2	4.3
Interest Spread	**4.5**	**4.4**	**4.0**	**4.0**	**3.9**	**4.1**	**4.2**	**4.3**
Net Interest Margin	**4.4**	**4.4**	**4.2**	**4.1**	**3.9**	**4.1**	**4.2**	**4.2**
Capitalisation Ratios (%)								
CAR	14.8	17.1	18.3	18.5	18.7	19.3	18.7	18.3
Tier I	13.3	15.8	17.0	17.3	17.7	17.1	16.9	16.7
Tier II	1.6	1.3	1.2	1.2	1.0	2.2	1.9	1.6
Business and Efficiency Ratios (%)								
Loans/Deposit	83.5	88.8	86.6	84.9	87.8	85.0	85.3	85.7
CASA Ratio	43.5	42.4	42.2	46.1	48.2	44.4	42.6	44.0
Cost/Assets	2.1	2.1	2.0	1.9	1.8	1.9	1.9	1.9
Cost/Total Income	41.0	39.7	38.6	36.3	36.9	40.4	39.9	39.1
Cost/Core Income	42.2	40.7	39.7	37.3	38.4	42.0	41.5	40.6
Int. Expense/Int. Income	50.0	51.3	51.1	46.3	43.6	46.3	48.8	49.2
Fee Income/Total Income	22.8	23.5	24.1	20.9	22.9	20.4	20.0	20.0
Non Int. Inc./Total Income	27.5	26.8	29.3	28.0	29.1	26.4	25.8	25.6
Emp. Cost/Total Expense	30.0	29.7	31.0	31.7	32.1	32.6	31.0	31.2
Investment/Deposit	30.7	31.8	34.1	33.2	29.2	27.5	27.6	27.7

Valuation

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
RoE	17.9	16.5	16.4	16.6	16.7	17.0	17.3	17.7
RoA	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.0
RoRWA	2.4	2.4	2.6	2.8	2.8	2.9	3.0	3.0
Book Value (INR)	205	274	312	370	433	502	587	689
Growth (%)	22.0	33.8	13.8	18.5	17.2	16.0	16.8	17.4
Price-BV (x)	**8.3**	**6.2**	**5.4**	**4.6**	**3.9**	**3.4**	**2.9**	**2.5**
Adjusted BV (INR)	194	263	300	357	420	489	570	670
Price-ABV (x)	**8.7**	**6.4**	**5.6**	**4.7**	**4.0**	**3.5**	**3.0**	**2.5**
EPS (INR)	33.9	39.6	48.0	56.6	66.8	79.3	94.4	112.8
Growth (%)	19.4	16.9	21.2	17.8	18.1	18.6	19.0	19.6
Price-Earnings (x)	**49.9**	**42.7**	**35.2**	**29.9**	**25.3**	**21.4**	**17.9**	**15.0**
Dividend Per Share (INR)	7.8	9.0	11.9	6.5	15.5	18.9	10.0	10.8
Dividend Yield (%)	**0.5**	**0.5**	**0.7**	**0.4**	**0.9**	**1.1**	**0.6**	**0.6**

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