

HDFCB hosted an analyst meet to primarily discuss the adjustments to op. net worth (NW) of eHDFCL and its potential impact on merged NIMs/asset quality aligning with HDFCB's policy framework. As per management, net adjustments to eHDFCL's op. NW of Rs1,340bn as on March 31 would work out to Rs364bn/Rs48 per share and, thus, net adj. NW would be Rs976bn. The adjustments include I-GAAP alignment of Rs118bn, credit harmonization of Rs76bn, DTL impact of Rs49bn, tax shield of Rs40bn, Q1FY24 profit of Rs62bn, dividend payout of Rs81bn, and cancellation of inv./share-swap of Rs142bn. We had largely factored in these adjustments, but for DTL and prudent contingent provisions, which we believe will protect future profitability and boost RoEs. Separately, the bank has guided for calibrated growth in the near term with a focus on building granular liability to replace HDFCL's high-cost borrowing and ramping-up the mortgage business from the bank's platform, which coupled with reducing the regulatory drag should lead to margin/RoA normalization. Factoring in incremental NW adjustments, we have lowered our BVPS estimates by 1-2% but expect the bank's RoA/RoE to improve from 1.9%/15.8% in FY24E (merged) to ~2%/17.3% by FY26E, as merger synergies kick in. We retain BUY with a TP of Rs2,100, valuing the core bank at 2.8x Sep-25E ABV and subs./inv. at Rs185/share.

HDFC Bank: Financial Snapshot (Standalone) - Merged financials from FY24E

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	369,614	441,101	668,655	774,870	916,466
Loan growth (%)	20.8	16.9	13.8	15.6	16.6
NII growth (%)	11.0	20.6	12.6	15.7	18.4
NIM (%)	3.9	4.1	3.7	3.7	3.8
PPOP growth (%)	11.7	9.9	13.3	16.4	18.3
Adj. EPS (Rs)	66.8	79.3	87.9	102.5	121.2
Adj. EPS growth (%)	18.1	18.6	11.2	16.6	18.3
Adj. BV (INR)	428.3	497.8	558.9	640.5	734.6
Adj. BVPS growth (%)	17.5	16.2	4.6	14.6	14.7
RoA (%)	1.9	1.9	1.9	2.0	2.0
RoE (%)	16.7	17.0	15.8	16.8	17.3
P/E (x)	23.3	19.7	16.4	14.1	11.9
P/ABV (x)	3.6	3.1	2.5	2.2	1.9

Source: Emkay Research; Merged financials from FY24E

Net worth adjustments stand at 27% of op. NW of eHDFCL as on March 31, 2023: As per management, net adjustments to eHDFCL's op. NW of Rs1,340bn, as on March 31, would work out to Rs364bn/Rs48 per share, including I-GAAP alignment of Rs118bn, credit harmonization of Rs76bn (incl. contingent provisions of Rs39bn), DTL Reserve impact of Rs49bn, tax shield (positive) of Rs40bn, Q1FY24 profit of Rs62bn, interim dividend payout of Rs81bn, and cancellation of investments/share-swap of Rs142bn. Post the adjustment, eHDFCL's NW stands at Rs976bn. As per management, the DTL reserve has been mainly created on lower tax incidence on mortgage portfolio enjoyed by eHDFCL by creating special reserve under Sec. 36, while contingent provisions have been created after factoring in the conservative risk assessment based on the bank's policy. Overall, contingent provisions, including floating provisions, would now be ~Rs150bn/0.7% on merged loan book. Additionally, we believe the bank would recognize consideration from warrant conversion in Q2, while CREDILA's stake sale gains could possibly be recognized in Q3, subject to regulatory approvals.

Excess liquidity and regulatory drag including ICRR impact to hurt margins in Q2, before gradually recovering by Q4: The bank has reported that proforma merged HDFCB's Q1FY24 margins based on interest-earning assets/overall assets stood at 3.9-4%/3.7-3.8% vs. 4.3%/4.1% for the standalone bank. Additionally, the bank has reported that eHDFCL's margin for Q1FY24 stood at 2.7%, which adjusted for terminal excess liquidity and regulatory drag (ex ICRR) stood at 2% post-merger on 'Day 0'. The bank believes the cumulative effect of ICRR + Excess liquidity + cost catch-up could be 20-25bps in the near term, but margins should gradually recover, led by reduction of ICRR/regulatory drag plus growth acceleration and replacement of eHDFCL's high-cost borrowings. On the liability front, the bank has been ramping up branches and would look at the gradual replacement of HDFCL's high-cost borrowings (80-85% to be replaced via retail deposits) as they mature. The bank also remains open to explore bulk deposits (subject to the right pricing) and would look to build a long-term bond book to match the long-term mortgage book.

Retain BUY

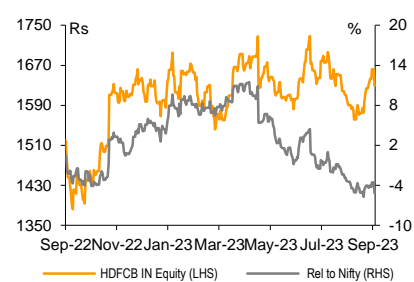
Factoring in incremental NW adjustments, we have lowered our BVPS estimates for FY24-26E by 1-2%. However, we expect the bank's RoA/RoE to improve from 1.9%/15.8% in FY24E (merged) to ~2%/17.3% by FY26E, benefiting from better growth/margins and fees, as merger synergies kick in. We retain BUY with a TP of Rs2,100 (valuing the core bank at 2.8x its Sep-25E ABV + subs./inv. value at Rs185/share). Further, given KMB undergoing mgmt. transition (typically leading to business/valuation softness as seen in HDFCB), HDFCB with a stable mgmt., better return profile and valuation (2x FY26E ABV vs. 2.1x for KMB) offers a good bet from a medium-long term view. The long-awaited listing of HDB Fin should be another stock catalyst going ahead.

Target Price - 12M	Jun-24
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	28.9
CMP (18-Sep-23) (Rs)	1,629.1

Stock Data	Ticker
52-week High (Rs)	1,758
52-week Low (Rs)	1,365
Shares outstanding (mn)	7,575.6
Market-cap (Rs bn)	12,341
Market-cap (USD mn)	148,207
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	21
ADTV-3M (Rs mn)	34,410.2
ADTV-3M (USD mn)	413.2
Free float (%)	99.0
Nifty-50	20,133
INR/USD	83.3
Shareholding, Jul-23	
Promoters (%)	-
FPIs/MFs (%)	46.6/25.9

Price Performance

(%)	1M	3M	12M
Absolute	2.4	1.6	9.1
Rel. to Nifty	(1.8)	(5.0)	(5.0)

1-Year share price trend (Rs)**Anand Dama**

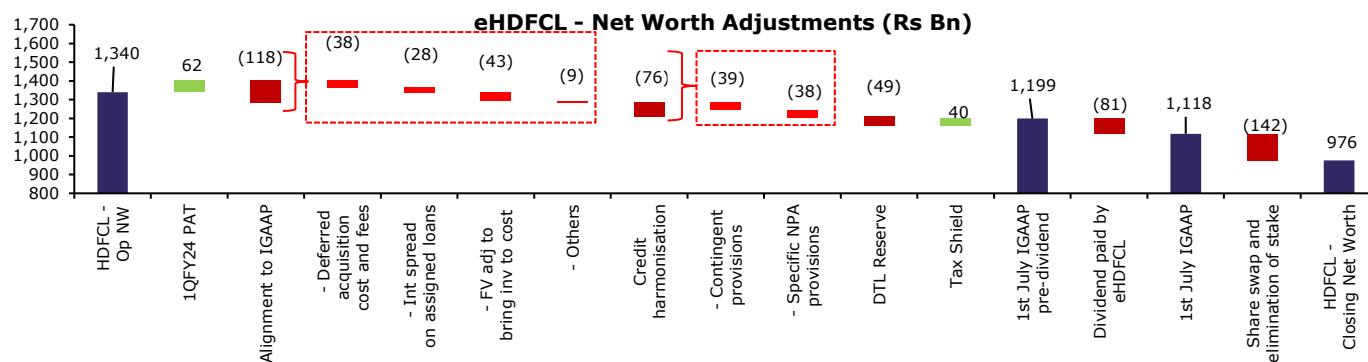
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Story in Charts

Exhibit 1: Net adjustments/impact on op. NW of HDFCL works out to Rs364bn/27% of op NW



Source: Company, Emkay Research

Exhibit 2: GNPA ratio for the merged bank is higher because of increased stress recognition in HDFCL's non-individual loan portfolio

Particulars	Mar-23 HDFCB	Jun-23 HDFCB	July 1, 2023 HDFCB Merged
Gross NPA (%)	1.1%	1.2%	1.4%
- Retail GNPA (%)	1.0%	0.9%	0.9%
- CRB GNPA (%)	1.6%	1.8%	1.8%
- CRB ex-Agri GNPA (%)	1.1%	1.2%	1.2%
- Wholesale GNPA (%)	0.5%	0.4%	0.4%
- e-HDFCL Individual GNPA (%)			1.0%
- e-HDFCL Non-Individual GNPA (%)			6.7%
Net NPA (%)	0.3%	0.3%	0.4%
Specific provision coverage (%)	76%	75%	74%
Contingent and floating provisions as a % of advances	0.7%	0.7%	0.7%
Total provisions as a % of advances	2.0%	2.0%	2.2%
Total provisions (ex-specific) as a % of advances	1.1%	1.1%	1.1%

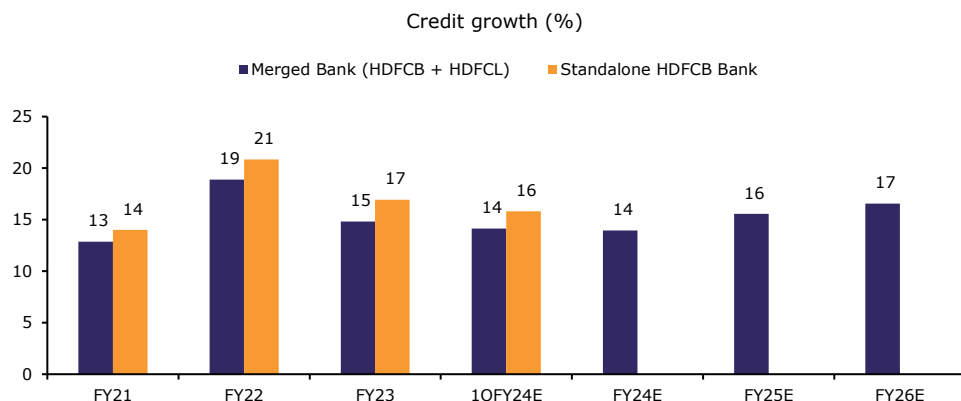
Source: Company, Emkay Research

Exhibit 3: Key Ratios – HDFCB's Standalone vs. Proforma Merged

Financials	HDFCB - Standalone		Proforma Merged
	FY23	Q1FY24	Q1FY24
NIM (Interest-bearing assets)	4.3%	4.3%	3.9% - 4.0%
NIM (total assets)	4.1%	4.1%	3.7% - 3.8%
Cost to income	40%	43%	~40%
Credit costs as a % of advances	0.70%	0.70%	~0.6%
RoA	2.1%	2.1%	1.9% - 2.0%
RoE	17.4%	17.3%	~16%
EPS - Standalone	79	21	20
EPS - Consolidated	83	22	22
BVPS - Standalone	502	525	519
BVPS - Consolidated	519	543	536
CAR	19.3%	18.9%	19.2%

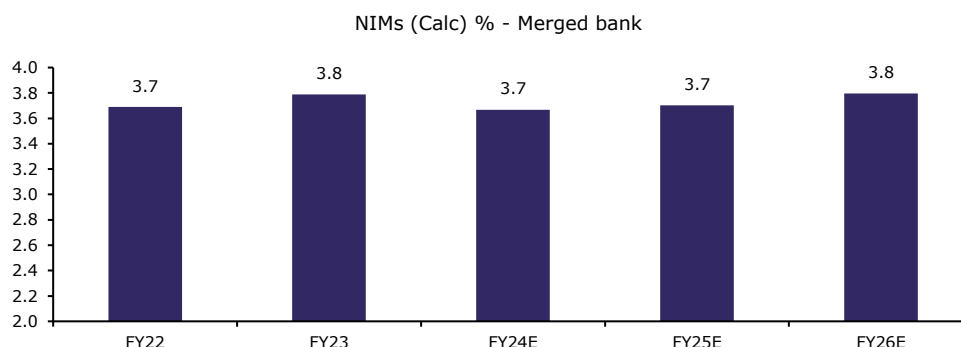
Source: Company, Emkay Research

Exhibit 4: FY24 will be a year of consolidation, post which we expect growth to improve as the bank revives from the merger drag and scales up mortgage growth



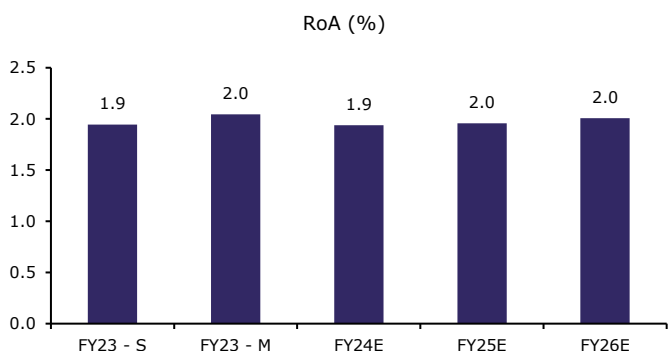
Source: Emkay Research

Exhibit 5: We expect some softness in NIMs over FY24-25E, mainly due to the recent ICRR impact, regulatory drag and gradual reduction in yields due to a higher share of the floating book (incl. mortgage) but recover gradually as the bank refinances high-cost borrowings with deposits



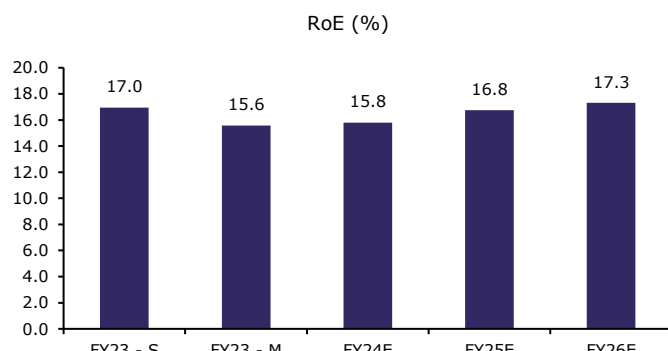
Source: Emkay Research

Exhibit 6: RoAs (M) to moderate due to margin pressure/higher opex, but to gradually recover as merger synergies kick in



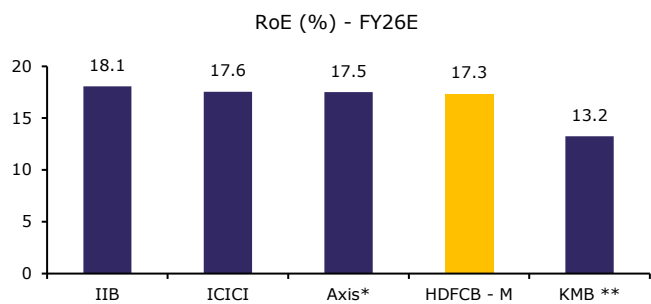
Source: Emkay Research; M - Merged, S - Standalone bank pre-merger

Exhibit 7: ...which along with better growth/leverage should help it reclaim 17% RoE, as seen in the standalone bank before the merger



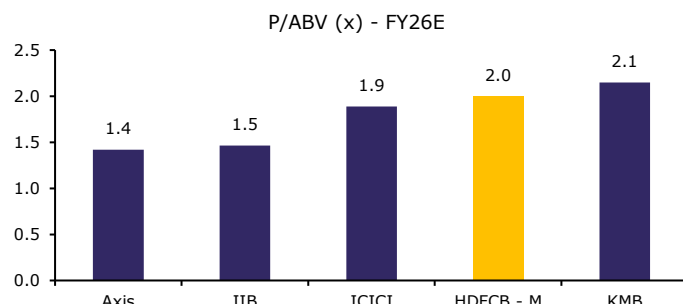
Source: Emkay Research; M - Merged, S - Standalone bank pre-merger

Exhibit 8: HDFCB to report healthy RoE by FY26E (better than KMB)



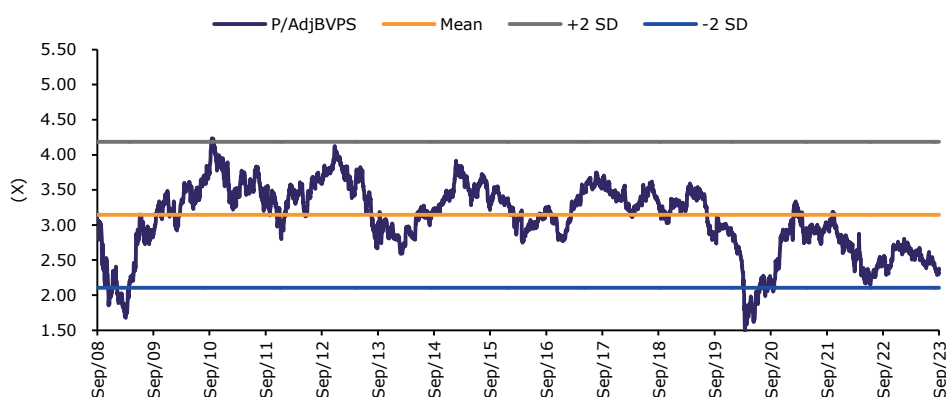
Source: Emkay Research; *Partly inflated due to lower capital **Partly suppressed due to higher capital

Exhibit 9: ...but still trades at a slight discount to KMB



Source: Emkay Research; P/ABV adj. for subs. valuations

Exhibit 10: HDFCB trades at a valuation of 2.4x its one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 11: Revision in estimates for the merged bank

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Net income	1,670,432	1,680,924	0.6%	1,970,699	1,975,990	0.3%	2,333,271	2,332,834	0.0%
PPOP	1,040,312	1,044,390	0.4%	1,211,554	1,215,551	0.3%	1,439,452	1,437,486	-0.1%
PAT	665,716	668,655	0.4%	774,071	774,870	0.1%	917,938	916,466	-0.2%
EPS (Rs)	87.5	87.9	0.4%	102.4	102.5	0.1%	121.4	121.2	-0.2%
BV (Rs)	577.5	567.9	-1.7%	661.3	651.8	-1.4%	757.6	747.9	-1.3%

Source: Emkay Research

Exhibit 12: Key Assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	14.8	13.8	15.6	16.6
Deposit Growth (%)	18.3	19.7	20.2	22.0
NIM (%)	3.8	3.7	3.7	3.8
GNPA (%)	1.2	1.3	1.4	1.4
Credit Cost (%)	0.7	0.7	0.7	0.7

Source: Emkay Research

HDFC Bank: Standalone Financials and Valuations (Merged financials from FY24E)

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,277,531	1,615,856	2,742,321	3,029,330	3,412,569
Interest Expense	557,435	747,433	1,547,257	1,646,384	1,775,785
Net interest income	720,096	868,422	1,195,065	1,382,946	1,636,784
NII growth (%)	11.0	20.6	12.6	15.7	18.4
Other income	295,099	312,162	485,860	593,045	696,050
Total Income	1,015,195	1,180,585	1,680,924	1,975,990	2,332,834
Operating expenses	374,422	476,521	636,534	760,440	895,348
PPOP	640,773	704,064	1,044,390	1,215,551	1,437,486
PPOP growth (%)	11.7	9.9	13.3	16.4	18.3
Core PPOP	617,947	717,475	952,955	1,097,643	1,307,787
Provisions & contingencies	150,618	119,197	150,466	179,629	212,263
PBT	490,155	584,867	893,924	1,035,922	1,225,222
Extraordinary items	0	0	0	0	0
Tax expense	120,541	143,766	225,269	261,052	308,756
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	369,614	441,101	668,655	774,870	916,466
PAT growth (%)	18.8	19.3	10.8	15.9	18.3
Adjusted PAT	369,614	441,101	668,655	774,870	916,466
Diluted EPS (Rs)	66.3	78.7	119.7	139.8	165.4
Diluted EPS growth (%)	17.8	18.6	11.3	16.8	18.3
DPS (Rs)	15.5	19.1	20.9	22.0	25.0
Dividend payout (%)	23.3	24.0	23.8	21.5	20.6
Effective tax rate (%)	24.6	24.6	25.2	25.2	25.2
Net interest margins (%)	3.9	4.1	3.7	3.7	3.8
Cost-income ratio (%)	36.9	40.4	37.9	38.5	38.4
Shares outstanding (mn)	5,545.5	5,579.7	7,562.4	7,562.4	7,562.4

Source: Company, Emkay Research; Merged financials from FY24E

Asset Quality and Other Metrics					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	161,409.3	180,190.0	340,557.5	404,400.3	481,408.0
Net NPLs	44,076.7	43,684.2	91,950.5	113,232.1	134,794.2
GNPA ratio (%)	1.2	1.1	1.3	1.4	1.4
NNPA ratio (%)	0.3	0.3	0.4	0.4	0.4
Provision coverage (%)	72.7	75.8	73.0	72.0	72.0
Gross slippages	268,614.3	244,000.0	393,574.1	425,618.7	513,384.2
Gross slippage ratio (%)	1.9	1.5	1.6	1.5	1.5
LLP ratio (%)	1.2	0.8	0.7	0.7	0.7
NNPA to net worth (%)	1.8	1.5	2.1	2.2	2.3
Capital adequacy					
Total CAR (%)	18.9	19.3	18.3	18.1	17.9
Tier-1 (%)	17.9	17.1	16.6	16.6	16.6
CET-1 (%)	16.7	16.4	15.5	15.7	15.8
RWA-to-Total Assets (%)	65.4	64.3	66.0	66.0	66.0
Miscellaneous					
Total income growth (%)	7.7	22.6	27.6	12.2	13.4
Opex growth (%)	14.4	27.3	27.1	19.5	17.7
Core PPOP growth (%)	15.5	16.1	2.7	15.2	19.1
PPOP margin (%)	40.7	36.5	32.4	33.6	35.0
PAT/PPOP (%)	57.7	62.7	64.0	63.7	63.8
LLP-to-Core PPOP (%)	24.4	16.6	15.8	16.4	16.2
Yield on advances (%)	7.9	8.6	9.5	9.1	8.9
Cost of funds (%)	3.5	3.9	5.4	4.9	4.6

Source: Company, Emkay Research; Merged financials from FY24E

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,546	5,580	7,562	7,562	7,562
Reserves & surplus	2,395,384	2,796,424	4,312,734	4,921,231	5,648,639
Net worth	2,400,929	2,802,004	4,320,296	4,928,794	5,656,201
Deposits	15,592,174	18,833,947	24,357,036	29,268,153	35,693,947
Borrowings	1,848,172	2,067,656	6,432,836	6,737,977	6,225,339
Interest-bearing liab.	17,440,346	20,901,602	30,789,872	36,006,131	41,919,287
Other liabilities & prov.	844,075	957,209	1,701,684	1,407,745	1,466,558
Total liabilities & equity	20,685,351	24,660,815	36,811,851	42,342,669	49,042,046
Net advances	13,688,209	16,005,859	25,143,272	29,061,844	33,878,998
Investments	4,555,357	5,170,014	7,067,327	8,184,243	9,414,928
Cash, other balances	1,523,269	1,937,651	2,463,190	2,736,466	3,143,946
Interest earning assets	19,766,835	23,113,524	34,673,788	39,982,553	46,437,873
Fixed assets	60,837	80,165	121,443	130,465	140,350
Other assets	857,678	1,467,125	2,016,620	2,229,652	2,463,823
Total assets	20,685,351	24,660,815	36,811,851	42,342,669	49,042,046
BVPS (Rs)	434.2	503.7	567.9	651.8	747.9
Adj. BVPS (INR)	428.3	497.8	558.9	640.5	734.6
Gross advances	13,805,542	16,142,365	25,391,879	29,353,012	34,225,612
Credit to deposit (%)	87.8	85.0	103.2	99.3	94.9
CASA ratio (%)	48.2	44.4	38.4	36.5	35.4
Cost of deposits (%)	3.4	3.7	4.8	4.6	4.4
Loans-to-Assets (%)	66.2	64.9	68.3	68.6	69.1
Net advances growth (%)	20.8	16.9	13.8	15.6	16.6
Deposit growth (%)	16.8	20.8	19.7	20.2	22.0
Book value growth (%)	17.2	16.0	4.7	14.8	14.8

Source: Company, Emkay Research; Merged financials from FY24E

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	23.3	19.7	16.4	14.1	11.9
P/B (x)	3.6	3.1	2.5	2.2	1.9
P/ABV (x)	3.6	3.1	2.6	2.3	2.0
P/PPOP (x)	13.6	12.4	10.6	9.1	7.7
Dividend yield (%)	1.0	1.2	1.3	1.4	1.5
DuPont-RoE split (%)					
NII/avg assets	3.8	3.8	3.5	3.5	3.6
Other income	1.5	1.4	1.4	1.5	1.5
Fee income	1.0	1.1	1.1	0.8	0.9
Opex	2.0	2.1	1.9	1.9	2.0
PPOP	3.4	3.1	3.0	3.1	3.1
Core PPOP	3.2	3.2	2.8	2.8	2.9
Provisions	0.8	0.5	0.4	0.5	0.5
Tax expense	0.6	0.6	0.7	0.7	0.7
RoA (%)	1.9	1.9	1.9	2.0	2.0
Leverage ratio (x)	8.6	8.7	8.1	8.6	8.6
RoE (%)	16.7	17.0	15.8	16.8	17.3
Quarterly data					
Rs mn, Y/E March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	194,814	210,212	229,878	233,518	235,991
NIM (%)	4.2	4.3	4.3	4.3	4.3
PPOP	153,678	173,922	190,241	186,209	187,720
PAT	91,960	106,058	122,595	120,475	119,518
EPS (Rs)	16.56	19.04	21.98	21.59	21.37

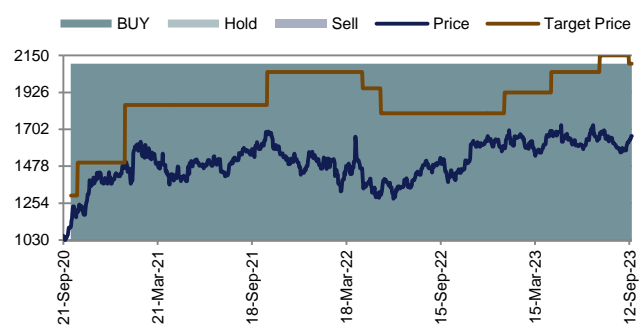
Source: Company, Emkay Research; Merged financials from FY24E

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
11-Sep-23	1,632	2,100	Buy	Anand Dama
17-Jul-23	1,679	2,150	Buy	Anand Dama
25-May-23	1,610	2,050	Buy	Anand Dama
24-Apr-23	1,688	2,050	Buy	Anand Dama
15-Apr-23	1,692	2,050	Buy	Anand Dama
09-Mar-23	1,631	1,925	Buy	Anand Dama
15-Jan-23	1,601	1,925	Buy	Anand Dama
04-Jan-23	1,610	1,800	Buy	Anand Dama
16-Oct-22	1,439	1,800	Buy	Anand Dama
04-Oct-22	1,453	1,800	Buy	Anand Dama
17-Jul-22	1,362	1,800	Buy	Anand Dama
01-Jun-22	1,395	1,800	Buy	Anand Dama
23-May-22	1,304	1,800	Buy	Anand Dama
18-Apr-22	1,395	1,950	Buy	Anand Dama
05-Apr-22	1,608	2,050	Buy	Anand Dama
04-Apr-22	1,657	2,050	Buy	Anand Dama
16-Jan-22	1,545	2,050	Buy	Anand Dama
04-Jan-22	1,529	2,050	Buy	Anand Dama
17-Oct-21	1,687	2,050	Buy	Anand Dama
05-Oct-21	1,595	1,850	Buy	Anand Dama
18-Jul-21	1,522	1,850	Buy	Anand Dama
18-Apr-21	1,429	1,850	Buy	Anand Dama
05-Apr-21	1,450	1,850	Buy	Anand Dama
20-Jan-21	1,492	1,850	Buy	Anand Dama
17-Jan-21	1,467	1,850	Buy	Anand Dama
06-Jan-21	1,421	1,500	Buy	Anand Dama
18-Oct-20	1,199	1,500	Buy	Anand Dama
05-Oct-20	1,114	1,300	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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