

HDFC BankBSE SENSEX
55,566S&P CNX
16,585**CMP: INR1,387 TP: INR1,850 (+33%)****Buy****Stock Info**

	HDFCB IN
Bloomberg Equity Shares (m)	5,546
M.Cap.(INRb)/(USDb)	7702.1 / 99.2
52-Week Range (INR)	1724 / 1278
1, 6, 12 Rel. Per (%)	3/-4/-15
12M Avg Val (INR M)	11987
Free float (%)	79.0

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	720.1	860.7	1,023.1
OP	640.8	756.5	895.0
NP	369.6	445.4	535.2
NIM (%)	3.9	4.0	4.1
EPS (INR)	66.8	80.3	96.5
EPS Gr (%)	18.1	20.1	20.2
ABV (INR)	433.0	500.9	584.0
Con. BV (INR)	420.3	485.5	565.4

Ratios

RoE (%)	16.7	17.2	17.8
RoA (%)	1.9	2.0	2.1

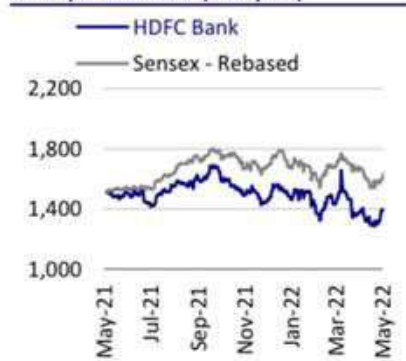
Valuations

P/BV (x) Con.	20.8	17.3	14.4
P/ABV (x)	3.2	2.8	2.4
P/E (x)	3.3	2.9	2.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	21.0	21.0	21.1
DII	20.1	18.8	17.3
FII	47.6	49.1	51.0
Others	11.3	11.1	10.6

FII Includes depository receipts

Stock performance (one-year)**Building a future ready bank****Merger process on track; Balance Sheet to double in the next four-to-five years**

We attended HDFCB's analyst day, where the management highlighted how the bank is getting future ready, with a focus on strengthening its digital capabilities and sustainable profitable growth. The bank is planning various new initiatives, with equal emphasis on providing a superior experience to its customers. Growth is likely to be broad based, with a target to double its Balance Sheet over the next four-to-five years even on a merged basis. It explained its rationale for the merger and addressed key investor concerns. We expect ~18%/20% loans/PAT CAGR over FY22-24E, with RoA/RoE at 2.1%/17.8% in FY24. HDFCB remains one of our preferred picks. We expect the stock to recover gradually as revenue and margin revive over FY23, while further clarity emerges on several aspects related to its merger with HDFC. We maintain our Buy rating with a TP of INR1,850/share.

Credit growth outlook healthy; aspires to double the Balance Sheet in four-to-five years

Credit demand is likely to remain healthy, led by its focus across segments such as Retail and Wholesale, with Commercial and Rural Banking growing at a higher pace (25-30%). PSU capex is likely to be unveiled over the next eight-to-ten months, while the recovery in private capex may be slightly delayed. The Housing sector has been performing well since CY20 and is expected to be the biggest contributor to GDP. This, along with its superior proposition in Auto/Unsecured loans, will drive Retail growth. Overall, the bank aspires to double its Balance Sheet over the next four-to-five years, even on a merged basis.

Mortgages to be a key growth driver, improves the portfolio mix

Mortgages penetration, at 2%, is the lowest v/s 21%/13%/6% penetration for Credit Cards/Personal/Vehicle loans. Around 70% of HDFC customers do not bank with HDFCB. Also, 5% of HDFCB customers have availed mortgages externally. This provides a significant growth opportunity. Undertaking the Mortgage business also provides an opportunity to cross-sell Consumer Durable loans. Currently, ~2k out of 6.3k branches offer mortgages. This is likely to increase going forward. The mix of Unsecured loans post-merger is likely to reduce to 22% from ~30% at present, which will increase its appetite to undertake Unsecured loans. We believe the merger will enable HDFCB to create a more diversified portfolio and reduce its reliance on cyclical business segments (Credit Card and Vehicle loans).

Drag of meeting PSL/SLR/CRR requirement to be controlled

Over the past years, the regulatory requirements in terms of SLR/CRR have fallen (to 22% v/s 28% earlier), while the borrowing mix of NBFCs has improved as they have strengthened their Balance Sheet. The SLR/CRR requirement stands at INR850b, with both HDFCB and HDFC (quantum of G-Sec rose to INR500b v/s INR40b a few years back) having sufficient headroom to meet the same without raising incremental liability. The PSL requirement is likely to be ~INR1.75t, of

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