Equity Research

June 23, 2022

BSE Sensex: 51823

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Annual report analysis

Banking

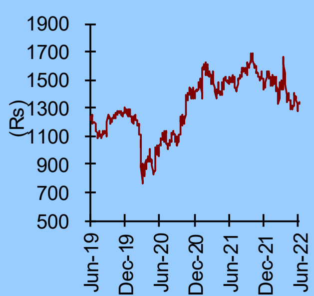
Target price: Rs1,955

Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	25.8	25.8	25.8
Institutional investors	60.8	60.4	60.2
MFs and others	14.5	15.0	16.3
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	2.9	2.9	0.6
FPI	43.4	42.5	43.3
Others	13.4	13.8	14.0

Source: BSE

Price chart



INDIA

HDFC Bank

BUY

Maintained

Annual report analysis – runway is huge; potentially add HDFC Bank every 5 years

Rs1,330

HDFC Bank's (HDFCB) FY22 annual report is once again themed on 'Leading Responsibly', focusing on reimagining the future with technology and a service-first culture. The CEO's (Sashidhar Jagdishan) message is similar to what was articulated during the analyst day on 31st May'22 highlighting why this is an opportune time to fructify the merger given housing loan growth opportunity with deeper penetration, regulatory convergence, conducive market development, pricing convergence, portfolio rebalancing, enhanced cross-sell, etc. Annual report states: 1) Growth runway is huge; potentially add HDFC Bank every five years. Proposed merger adds an entirely different dimension to the future. 2) There may not be any need to raise further funds to meet reserve requirements. 3) Plans to nearly double its network in next 3-5 years by opening 1,500 to 2,000 branches every year. 4) Bank will continue to invest in modern technology and talent. Maintain 'BUY'.

Incremental financial data points from annual report worth highlighting:

- **Segmental result analysis** reflects 13% YoY decline in earnings from retail segment (over and above 18% decline in FY21). Bank's (pretax) earnings growth of 17% was buoyed by wholesale segment where earnings were up 44% in FY22 (over and above 23% growth in FY21). Treasury profits were stable at Rs90bn.
- **Priority sector lending:** Bank has bought Rs1trn of PSL certificates (PSLC) in FY22 (vs Rs843bn in FY22) with incremental certificates skewed more towards micro enterprise and general category. Besides, deposits with NABARD/SIDBI/NHB for PSL shortfall have spiked to Rs447bn (vs Rs93bn in FY22). Of the overall advances, priority sector advances stood at Rs3.9trn (30% of domestic advances).
- **Attrition rate was relatively higher in FY22 at 25% – 36k employees (vs 18.3k in FY21).** It was more pronounced in frontline staff/sales officers (43%) and non-supervisory staff (22%) and in <30 years' age category (35% attrition). Hiring run-rate too was high in FY22 at 40% – 57.3k employees (vs 21.5k in FY21).
- **FY22 slippages of Rs268.6bn (2.3% run-rate) were** offset by better recoveries / upgrades and write-offs of Rs94.3bn. GNPAs down to 1.17% (vs 1.32% in FY21).
- **Restructured portfolio –** of the gross restructured pool of Rs159bn as of Sep'21 under covid resolution framework, in H2FY22, 13% slipped into NPAs, 4% was written-off and 3% was repaid. Besides, Rs68.7bn was restructured under MSME guidelines taking cumulative net restructured pool to 1.5% of advances. **HDB Financials gross restructured pool was <60bps** of which 13% slipped into NPAs.
- **Provision for reward points in FY22 was managed well** (despite higher spends post covid) at Rs4.65bn (vs Rs3.75bn in FY21).
- Compared to working capital and short-term financing, proportion of term lending inched up a percentage point to 66.2%.

Market Cap	Rs7387bn/US$94.4bn
Reuters/Bloomberg	HDBK.BO/HDFCB IN
Shares Outstanding (mn)	5,552.9
52-week Range (Rs)	1689/1281
Free Float (%)	74.2
FII (%)	43.3
Daily Volume (US$'000)	1,75,481
Absolute Return 3m (%)	(9.9)
Absolute Return 12m (%)	(8.9)
Sensex Return 3m (%)	(10.1)
Sensex Return 12m (%)	(0.2)

Year to Mar	FY21	FY22	FY23E	FY24E
NII (Rs bn)	649	720	840	1022
Net Profit (Rs bn)	311	370	443	534
EPS (Rs)	56.4	66.7	80.0	96.3
% Change YoY	17.9	18.1	20.0	20.5
P/E (x)	23.6	20.0	16.6	13.8
P/BV (x)	3.6	3.1	2.7	2.3
P/ABV (x)	3.7	3.1	2.7	2.4
GNPA (%)	1.3	1.2	1.1	1.1
RoA (%)	1.9	1.9	2.0	2.0
RoE (%)	16.6	16.7	17.2	18.0

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Annual report themes

I. Reimagining the future with technology

Given the progress made on technology investments, processes and governance, the regulatory actions have been fully lifted. HDFCB has converted the challenge into an opportunity and has made substantial strides in the way it evaluates, manages and operationalise technology.

Technology and digital strategy adopt a 360-degree approach that ensure resilience and modernisation of existing legacy systems and enable new age consumer experiences by partnering with modern neo-techs. It has implemented a series of technology-led initiatives that include: i) Changes at the foundational level, ii) creating new digital solutions and iii) modernising the core.

- **At the foundational level, HDFCB has**
  - Shifted primary data centres to state-of-the-art brand-new facilities in Mumbai and Bengaluru, to support higher uptimes and create a robust IT backbone for its operations.
  - A clearly defined capacity monitoring programme to proactively manage capacity upgrades across all key applications.
  - A technology obsolescence programme management office to plan and replace obsolescent components. Started putting in place next-gen disaster recovery (DR) set up for key applications.
  - Implemented landing zone architecture to leverage the cloud resilience, with elastic scalability, and at the same time have control over ecosystem on cloud.
  - Implemented a new Application Programming Interface (API) gateway and a new API development framework.
  - Kick-started modernisation of data warehouse with a cloud-enabled data lake platform that would enable to leverage AI/ML models and new age deep learning capabilities on the rich data set.
- **Creating new-age solutions through digital factory**
  - Rebuilding of acquisition journeys in partnership with a global technology leader in user experience. It has already built 10 new journeys and will be rapidly rolling out new journeys every 3 weeks. This includes journeys across account opening, loans and cards, covering both individual/MSME customers and both existing and new-to-bank customers.
  - HDFCB has launched ‘Xpress Car Loans’ – an end-to-end digital car loan journey for existing customers as well as non-customers that allows them to avail disbursement in 30 minutes, with credit decisions based on speedy data analysis. This is a first in the Indian banking industry and the bank has integrated its lending application with automobile dealers across the country.
  - In the next few quarters, it will launch more products and services under Digital 2.0 including a new payments platform for customers, payments platform for merchants and a wealth platform — all in partnerships with new age tech companies.

- **Modernising the core**

  The digital partnership strategy will help modernise existing experiences quickly without changing the legacy core. Towards this, it has created 'Enterprise Factory' wherein HDFCB's tech and digital teams work in a new age start-up like environment and co-create deep tech IP capabilities. The bank has started two very strategic initiatives.

  - *'Hollow the Core' Strategy* — HDFCB, in partnership with a new age start-up (with deep experience in core banking technology), is co-creating new core banking modules. This project will enable the moving out of payments module from existing core banking platform. This 15-month project will be followed by hollowing the customer master modules from its existing core systems and will ensure a single system of record for customers across various products.
  - *Rewrite mobile and net banking applications* — HDFCB has set up a new centre in Bengaluru and the team is re-writing the mobile and net banking platforms. The entire project will be completed in 2 years and will allow the bank to own a modern cloud-enabled mobile/net banking platform. Enabling a new-age experience for customers, it will roll out new features every 3 to 4 weeks, in-line with digital fintech companies.

II. Customer centricity - a service first culture

- HDFCB is institutionalising a 'Service First' culture addressing customers' enquiries or complaints on time/every time, working on the issues raised for a permanent fix and being committed to put a smile on customers' faces. The bank leads the overall NPS ranking among 20+ competitors in the banking category.

III. Focus on identified growth engines paying off

- In FY21, it had clearly identified the following as its growth engines — retail assets, commercial (MSME) and rural banking, corporate banking, government and institutional banking, wealth management and payments to be driven by delivery channels of branch banking, tele-sales/service/relationship and digital marketing.
- Focus on the MSME sector is paying off, with commercial and rural banking group emerging as a strong growth driver (up 30.4%). It has also leveraged the opportunity available in the corporate banking sector (up 17.4%) without compromising on RoAs. It is expanding wealth management services to more cities and towns (now 700+ towns). Retail loans continue to grow in the same pristine way (up 15.2%). Payments business is starting to recover well, post the lifting of the embargo and with the slew of new launches completed.

Incremental operating metrics

NIMs moderate; asset mix shifts towards high rated, low yielding segments

- Asset mix has shifted to high rated, but low yielding segments and NIMs moderated to 4.0%.
- Nonetheless, change in asset mix had a positive impact on the net credit margin that increased to 3.3% in FY22.

Investing in franchise led to higher opex

- In FY22, HDB added 734 new branches and 2,043 ATMs / CDMs. This, along with higher spend on IT, resulted in higher infrastructure and staffing expenses. Staff expenses also went up due to employee additions and annual wage revisions. Further, DICGC premium cost increased due to deposit growth. Other expenditure includes commission paid to sales agents, amounting to Rs37.2bn (up 42%).
- Average remuneration increase for key managerial personnel was 3.06%, while for non-managerial staff it was 8.91%.
- Change in accounting policy from the intrinsic value method to the fair value method for all ESOPs granted after March 31, 2021 led to employee cost being higher by Rs3.3bn.

Third party distribution income constitutes 23% of fee income

- Income from third party distribution business grew by 24% to Rs44.2bn, constituting 23% of fee income (22% in FY21).
- Bancassurance business commission income includes fees of Rs15.6bn (vs Rs14.8bn in FY21) in respect of life insurance business and Rs2.66bn (vs Rs2.79bn in FY21) in respect of general insurance and health insurance businesses.
- Also, it earned marketing and distribution commission income of Rs30.6bn (vs Rs21.1bn) for displaying publicity materials at branches. Recoveries from written-off accounts in FY22 amounted to Rs27.6bn (vs Rs21.48bn).

Investment fluctuation reserve: No transfer required as already above regulatory requirement

- 34.8% of portfolio is in AFS/HFT.
- It carried investment fluctuation reserve equivalent to 2.28% of this portfolio. There was no transfer (vs Rs17bn in FY21) to investment fluctuation reserve in FY22.

Stress test for geopolitical risks

- HDFC Bank undertakes topical stress testing based on prevailing geopolitical/ macroeconomic/sectoral and other trends. Stress analysis conducted to estimate the (direct and indirect) impact of the Russia-Ukraine conflict does not exhibit any significant risk.
- As a part of its continuous and robust country risk monitoring, it has proactively taken steps to limit its exposure to Sri Lanka.

Merger rationale: Mortgage as growth opportunity, regulatory convergence, conducive market development

- **HDFCB was missing out on an upcoming opportunity in mortgages**
  - The bank is missing out an opportunity with its home loans constituting merely 6% of advances.
  - Housing sector has got an impetus with the launch of RERA. GST, etc. and the downcycle since FY13 seems to have ended in FY21 as transactions are rising. Housing is going to be a huge growth opportunity and one of the key drivers of India's GDP over the next decade.
  - HDFCB is not participating in this opportunity in its truest sense. Out of 71mn HDFCB customers, only 2% had HDFC home loans while ~5% of the bank customers have availed of mortgages externally.
- **HDFCB has significant headroom for mortgage penetration**
  - 70% of HDFC's customers are not banking with HDFCB, presenting yet another addressable opportunity.
  - With the advantage of a lower cost of funds and the distribution muscle it has built, it is imperative to seize this opportunity. Overall, on cost of funds, HDFC cost of funds stood at 5.8%, which is 220bps higher than 3.6% for the bank.
  - Also, given that all bank locations are not currently serviced by HDFC, around a third of bank's branches are able to actively offer the product.
  - However, the bank now felt that conversion of mortgage from an agency product to an in-house product was required. Regulatory convergence and market developments over time have improved the risk-reward equation.
  - Home loan customers typically keep deposits that are 5-7x that of other retail customers.
- **Also, regulatory convergence and market developments over time have improved the risk-reward equation and merger rationale now makes sense**
  - Resource mobilisation through long-tenure infrastructure and affordable housing bonds that are exempt from reserves and PSL. Also, reserving requirements have come down from 26% to 22% enabling organic compliance with reserving.
  - With LCR becoming effective for HFCs, HDFC is carrying Rs400bn-500bn G-Secs, and HDFCB too has surplus liquidity. Hence requirement to raise fresh liabilities or drag due to CRR/SLR requirement will be minimal.
  - Increased focus on MSMEs, affordable housing loans and well-developed PSL certificate market will aid building up PSL requirement. Though, we believe, cost of buying PSLC will still have some drag.
  - HDFC's asset size is Rs5.75trn, of which Rs750bn are affordable housing assets backed by bonds. PSL required to be maintained at 40% will be Rs2trn of which Rs250bn is available with HDFC. 50% of PSL requirements will be made through affordable housing / core PSL and balance through agri / MSME. Cost of PSLC purchases range from 50-200bps and this is likely to have 5-10bps impact on RoA unmitigated.

- **Long-term mortgages enable enhanced cross-sell**
  - Mortgages, being a longer tenure product, would enhance customer lifetime value and provide resiliency to the balance sheet.
  - Longer tenure mortgage makes the customer sticky aiding further cross-sell opportunities.
  - Stable secured mortgage lending would complement the bank's existing retail product line including unsecured and consumer durable loans.
  - There will be enhanced resilience for infrastructure lending.
- **Accelerating deposit engine will be key; plans to nearly double the branch network**
  - Enhancing liability franchise to fund future growth will be key and the bank will accelerate its deposit engine. It plans to nearly double network in the next three to five years by opening 1,500 to 2,000 branches every year. The branch will be digital from a customer on-boarding and transaction/servicing perspective, will be small in size and will be phygital relationship centres. Management has earlier highlighted that bank would not be an outlier on rates and pricing will not be a strategy to garner deposits. Also, reactivating front-end team aggression will be key to push the liability engine.
- **Regulatory approvals –** The transformational merger of HDFC that is subject to various regulatory approvals will likely take effect in ~15-18 months.

Commercial Rural Banking (CRB) – Enabler for bank's PSL and reach in semi-urban and rural areas

- CRB primarily comprises emerging market group, business banking group, emerging enterprise group, rural banking group (agri, KCC), transportation group and healthcare financing.
- The portfolio is adequately secured with collateral cover, structured sourcing model through branch channels and complete relationship including promoter and family liability accounts to contain risks.
- Of the bank's total 6,338 branches, MSME is currently rolled out through 5,331 branches and of that 2,353 branches have a MSME book, which comprises more than 25% of the specific branch's advances portfolio. Over the next decade, 10k SME customers will become mid-corporate and 1k mid-corporates will become large corporates, which would also provide immense scale-up opportunities.
- CRB strategy would be geographic expansion, customer acquisition, deeper village penetration, logistics ecosystem and therefore market share gains. In fact, it is looking to expand its mid-market presence from 135 cities as at FY22-end to 250 cities by FY23-end.
- On agri, HDFCB market share is 6.4% and it targets to take it to 9% by FY24. By FY23, it aims to have presence in 165k villages and by FY24 in 200k villages from 130k villages in FY22.
- It will focus on government schemes like AIF, PMFME, etc. and will also increase its exposure to agri allied (non-crop) and horticulture segments.

- In terms of market share in the transportation segment, HDFCB was number #1 across segments for Mar'22 with its market share at 28% for HCV, 17% for CE and 8% for LCV/ULCV.
- Healthcare industry opportunity is huge given the hospital and doctor ecosystem base – ~750 corporate hospital chains, 27k+ nursing homes, 5k+ standalone hospitals, Rs2.5bn in hospital revenues, and Rs1.25bn in revenues of private doctors, Rs250mn-300mn TPA claims, etc.
- HDFCB is leveraging its relationship with 320k doctors, 6k+ hospitals, 14k+ labs, 17k+ chemists, 1k+ pharmcos, etc.

Corporate banking cluster: Balanced growth with incremental identified opportunities

- HDFCB's corporate credit grew CAGR of 22% over the past 2 years and 16% in FY22 *vs* ~1% for the industry. Bank's corporate book is well diversified and represented through various industries and has one of the best risk-adjusted returns in the banking industry in corporate banking.
- Bank has balanced growth between both PSU and non-PSU banks with 62% of corporate exposure being skewed towards private entities (17% YoY growth in FY22) and 38% towards public sector entities (13% YoY growth in FY22). Internal rating for private corporate sector is 3.83x and that for PSU sectors is 2.84x. Among sectors, agri, food, beverages, infra, telecom services, etc. have been driving growth.
- HDFCB is the preferred banker to 4.4mn corporate employees (up 14% YoY) spread across >2k corporates with average monthly balance of Rs541bn in FY22 (up 21% YoY).
- Bank's strategy in corporate banking is to increase its share of wallet and product holdings for ETB clients. Also, learnings from particular company in a sector are replicated across other companies in that sector.
- Bank has also ***reimagined the supply chain landscape*** by launching a new platform in Q3FY22, post which the supply chain financing portfolio was up 1.3x YoY.
- ***Production linked incentive (PLI) scheme*** is another area that will attract lending since a total outlay of Rs2trn across 14 sectors and 600 companies is expected. HDFCB has proactively identified companies looking to tap this opportunity.
- ***New-to-bank opportunities*** - There are 2,237 companies in India with turnover of Rs10bn or more. Of these, 1,066 companies are dealing with HDFCB on the asset side. Of the remaining, companies with no SMA reporting and 'A and above' rating are around 616 entities. These entities represent potential incremental lending opportunity of Rs11trn (80% long-term, 20% short-term). Hence, there is a huge untapped opportunity in the new-to-bank segment as well.
- It aims to be the ***largest and most preferred bank to MNCs*** in India with a clientele of 693 (53 of them initiated in FY22 itself).

Retail assets: New initiatives to drive Xpress digital car loans, gold loans, personal loans to NTB customers

- The customer base of the bank expanded 15% to 71mn.
- Personal Loans exhibited strong growth with portfolio reaching Rs1.4tn and a greater focus on the government segment as well as top corporates resulted in improved portfolio quality.
- Key indigenous digital products such as Xpress Car loans, 10 Second Personal loans, Digital loan against shares, and Digital loan against Mutual funds, among others, enable not only existing customers but also new to bank customers to avail loans in a seamless manner. The journey till disbursal will be completed within 30 minutes without any manual intervention.
- Bank maintained leadership position in Auto Loan segment, which underwent supply chain constraints, by outpacing industry growth, thus increasing market share.
- Bank originated, on an average Rs35.5bn of home loans every month in FY22 and purchased Rs282bn as direct assignment of loans.
- **Expand gold loan portfolio:** Bank is consolidating its gold loan branch presence and will increase distribution 3x. It has built in processes and controls and invested in branch network to manage the risks to ensure gold loan portfolio grows significantly.

Leadership in payments: Payzapp 2.0 launch on cards

- The revamped PayZapp 2 is around the corner and will be providing a unified experience across contactless payments. Smartbuy continues to play a key role in providing a strong loyalty framework and has gained popularity among customers for providing accelerated reward points and reward redemptions on a single platform.
- The bank enjoys 47% market share in cards, >1mn + POS terminals deployed and >14.5 tn volume acquired across cards, NetBanking and UPI.

Government and Institutional Business: Dominates with 26% share in fund flows

- Bank is putting massive amount of efforts on government business as it sees a big opportunity for private banks given dominance of PSU banks currently.
- HDFCB is a leading bank in managing government fund flows and has a coveted position in Public Financial Management System. Of the ~Rs16trn, Central Government's fund flow, HDFCB manages inflows of ~26%.
- Total direct (CBDT) and indirect taxes (GST & CBIC) collected for the government amounted to Rs6.3tn. The single nodal agency construct introduced in September 2021 by GOI will further augment these flows.
- Bank targets to retain 10-15% share in identified Central government fund flow business opportunities in the next two years.
- On state government business opportunities, it targets to achieve 5% market share across the Rs5.75trn identified opportunity in the next 2 years.

ESG initiatives

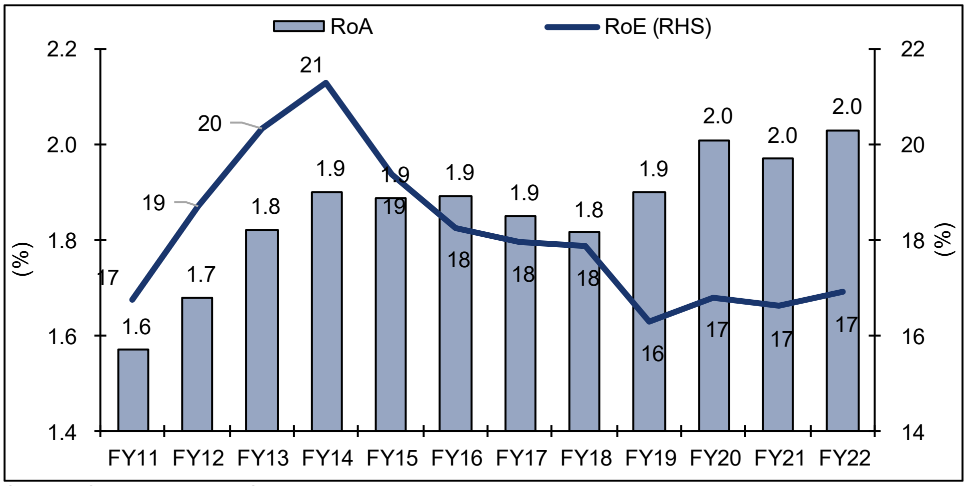
- HDFCB spent Rs7.36bn on CSR activities in FY22 and through CSR initiatives under *Parivartan*, it has already potentially impacted >96mn lives.
- Lending decisions are being increasingly put through the ESG lens and greater emphasis is being laid on green financing solutions.
- It is continuously transforming its operations to achieve low carbon growth. It has set a target to achieve carbon neutrality for its scope 1 and scope 2 emissions by FY32 and is formalising a roadmap covering phased emission and energy reduction targets.
- No cases of non-compliance with environmental laws and regulations were identified during the year. The bank tracks its GHG emissions and transparently reports its environmental performance annually.
- Bank's neutrality, absolute emission and intensity targets
  - 32% carbon neutral by FY25
  - 50% carbon neutral by FY28
  - 10% carbon neutral by FY32
  - 23% reduction in energy intensity (GJ/FTE) by FY25
  - 9% reduction in absolute scope 1 and scope 2 emissions by FY25
  - 34% reduction in scope1+2 emissions intensity (tCO2/ FTE) (excluding offsets) by FY25

Subsidiaries performance

- HDB Financial Services (HDBFS) has a strong network of over 1,374 branches spread across 989 cities/towns. HDBFS's net interest income grew 9.4% to Rs50.38bn in FY22. FY22 profit was Rs10.11bn vs Rs3.92bn in FY21. Its assets under management for FY22 was stable at Rs614.4bn.
- HDFC Securities' (HSL) total income under Ind-AS was Rs19.90bn as against Rs13.99bn in FY21 and net profit was Rs9.84bn as against Rs7.03bn in FY21. The company has a customer base of 3.83mn to whom it offers an exhaustive range of investment and protection products. For FY22, HSL had 1.27mn transacting customers. The focus on digitalisation continued with 91% of its customers accessing its services digitally against 92% in FY21.

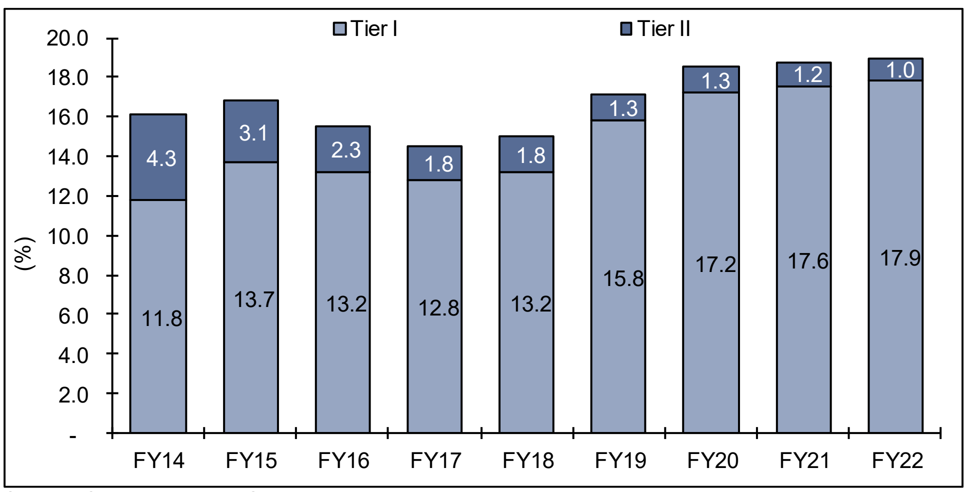
Superior and steady return profile, adequately capitalised

Chart 1: RoA and RoE trajectory consistent despite challenges



Source: Company data, I-Sec research

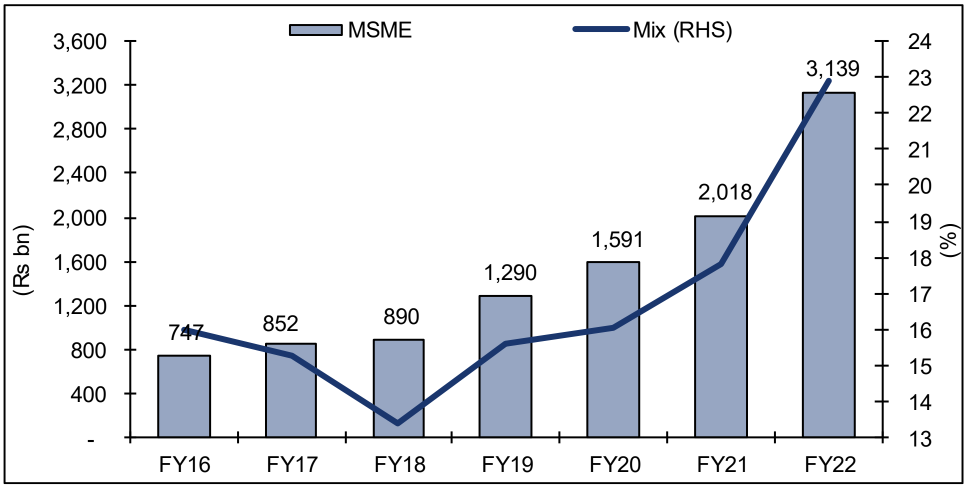
Chart 2: Only leading private bank to have not raised equity but still with comfortable Tier-1



Source: Company data, I-Sec research

Lending and deposit profile

Chart 3: MSME crossing Rs3tn mark, up >50% YoY



Source: Company data, I-Sec research

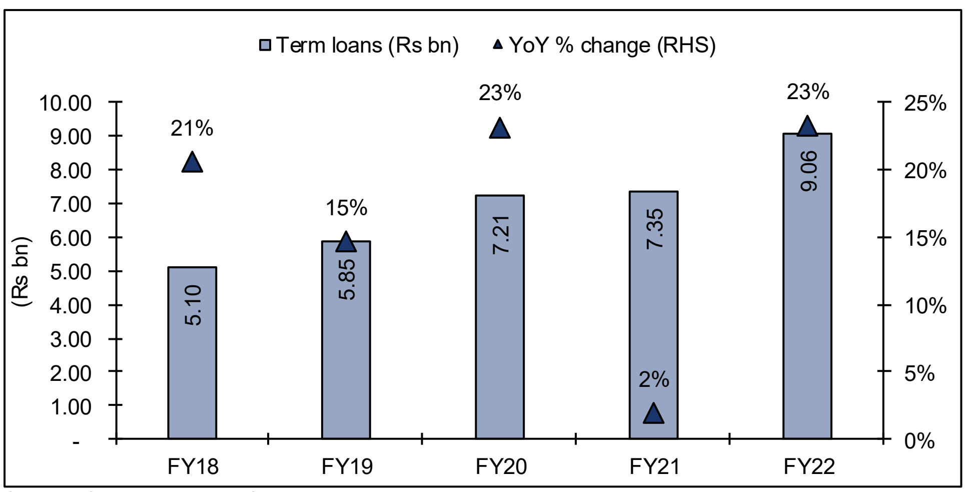
Table 1: Advances to public sector constitute ~10% of the overall portfolio

(Rs mn)

	FY17	FY18	FY19	FY20	FY21	FY22
Advances to public sector	1,57,741	1,37,708	2,16,010	6,23,354	11,99,083	13,56,938
Total Advances	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,36,88,209
Total Assets	86,38,401	1,06,39,343	1,24,45,407	1,53,05,113	1,74,68,705	2,06,85,351
As a % of total advances	**2.8%**	**2.1%**	**2.6%**	**6.3%**	**10.6%**	**9.9%**
As a % of total assets	**1.8%**	**1.3%**	**1.7%**	**4.1%**	**6.9%**	**6.6%**

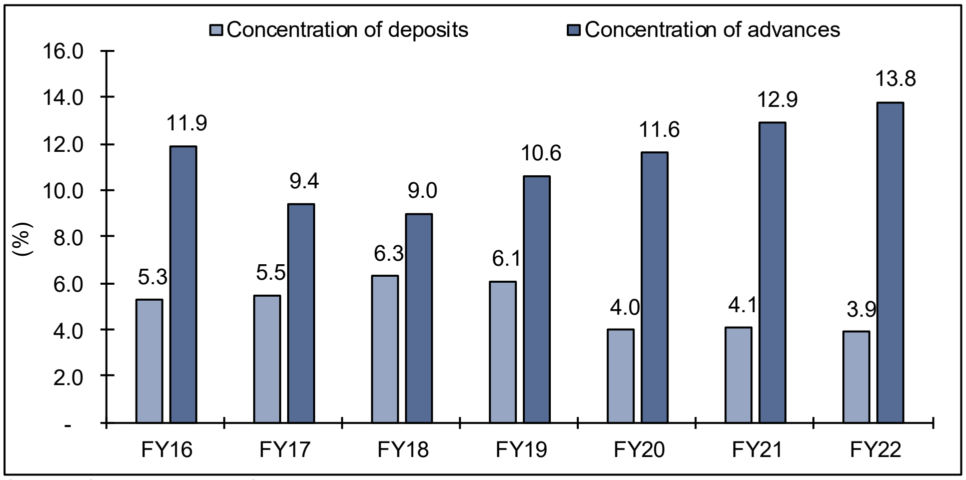
Source: Company data, I-Sec research

Chart 4: Term loans see 23% growth in FY22 vs. flat growth in FY21



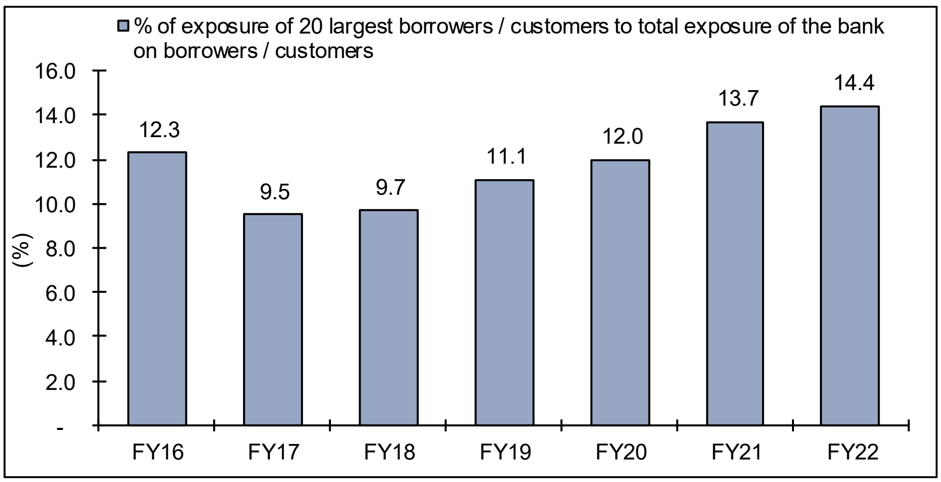
Source: Company data, I-Sec research

Chart 5: Granular deposit profile prominent; advance concentration rises due to corporate credit growth



Source: Company data, I-Sec research

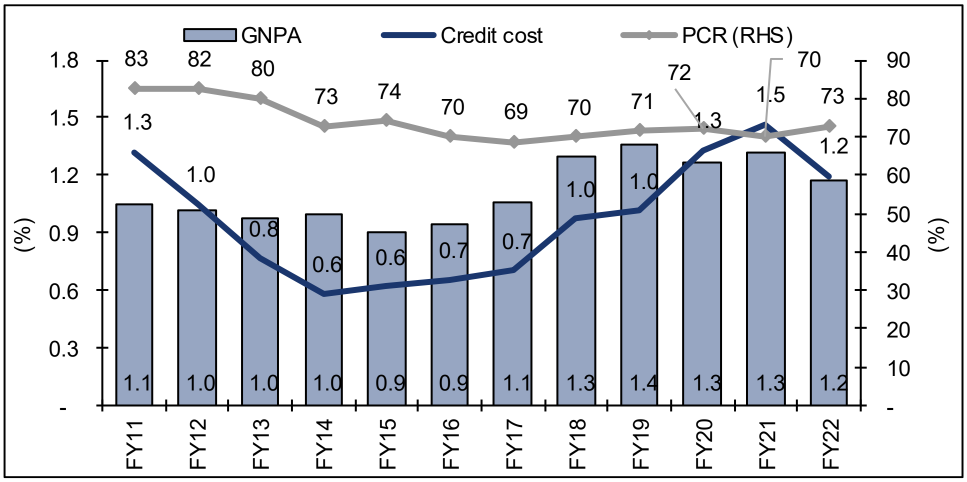
Chart 6: Exposure to top-20 customers has inched up over the past two years



Source: Company data, I-Sec research

Resilient and best-in-class asset quality despite challenges

Chart 7: GNPAs and specific credit cost steady



Source: Company data, I-Sec research

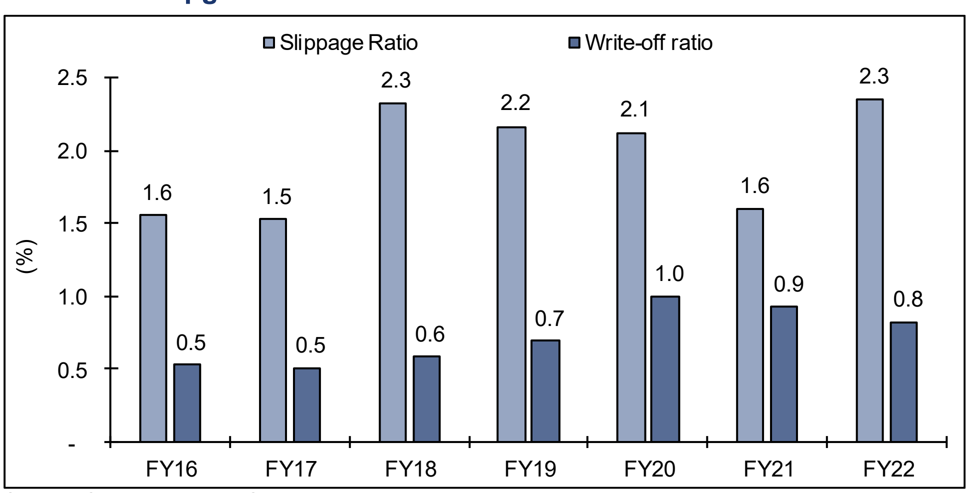
Table 2: Despite 2.3% slippages, GNPAs settled in similar range

(Rs mn)

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22
GNPA at the beginning	34,384	43,928	58,857	86,070	1,12,242	1,26,500	1,50,860
- GNPL ratio (%)							
Additions during the year	57,126	71,262	1,29,590	1,43,820	1,75,631	1,60,400	2,68,614
- Slippage run-rate (%)							
Upgradations	13,771	15,194	41,636	32,520	36,046	16,016	94,858
Recoveries	14,387	17,280	28,083	39,325	42,782	27,133	68,908
- Upgrades/recovery run-rate (%)							
Write-offs	19,424	23,859	32,658	45,804	82,545	92,891	94,299
- Write-offs rate (%)							
Reductions during the year	47,582	56,333	1,02,377	1,17,648	1,61,373	1,36,040	2,58,065
GNPA at the end	43,928	58,857	86,070	1,12,242	1,26,500	1,50,860	1,61,410
- GNPL ratio (%)							
Gross advances of previous FY	36,80,371	46,76,664	55,86,099	66,43,390	82,74,109	1,00,28,105	1,14,33,953

Source: Company data, I-Sec research

Chart 8: FY22 slippages of Rs268.6bn (2.3% run-rate) were offset by better recoveries / upgrades and write-offs



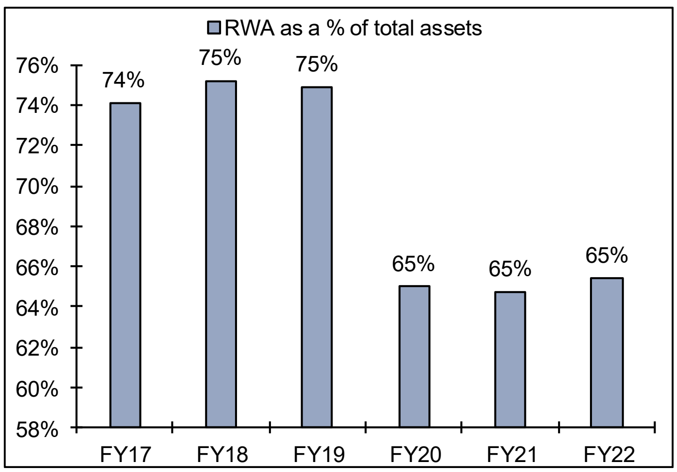
Source: Company data, I-Sec research

Table 3: GNPAs improved for non-PSL segment; agri NPAs have inched up

(Rs bn)	FY20				FY21				FY22			
	Gross Advances	% of total	GNPA	GNPA %	Gross Advances	% of total	GNPA	GNPA %	Gross Advances	% of total	GNPA	GNPA %
Priority sector	**2,583**	**26%**	**57**	**2.22**	**2,614**	**23%**	**55**	**2.10**	**3,948**	**29%**	**80**	**2.04**
Agri & allied activities	823	8%	35	4.28	929	8%	34	3.67	1,022	7%	42	4.07
Advances to industry eligible as PSL	433	4%	4	0.92	662	6%	4	0.58	1,306	9%	8	0.59
Services	1,005	10%	17	1.71	697	6%	13	1.93	1,268	9%	26	2.04
Personal loans	322	3%	1	0.26	326	3%	3	1.04	352	3%	5	1.49
Non-priority sector	**7,444**	**74%**	**68**	**0.92**	**8,819**	**77%**	**95**	**1.08**	**9,857**	**71%**	**81**	**0.82**
Agri & allied activities	231	2%	1	0.33	205	2%	6	3.04	34	0%	4	12.38
Industry	2,746	27%	28	1.01	3,017	26%	23	0.76	2,950	21%	19	0.65
Services	1,901	19%	23	1.21	2,685	23%	37	1.38	3,276	24%	28	0.84
Personal loans	2,566	26%	17	0.65	2,911	25%	29	1.00	3,598	26%	30	0.83
Total	**10,027**	**100%**	**126**	**1.25**	**11,433**	**100%**	**150**	**1.31**	**13,805**	**100%**	**161**	**1.17**
Agri & allied activities	1,054	11%	36	3.42	1,134	10%	40	3.56	1,056	8%	46	4.34
Industry	3,179	32%	32	1.00	3,680	32%	27	0.73	4,256	31%	27	0.63
Services	2,906	29%	40	1.39	3,382	30%	50	1.49	4,543	33%	53	1.18
Personal loans	2,888	29%	18	0.61	3,237	28%	32	1.00	3,950	29%	35	0.89

Source: Company data, I-Sec research

Chart 9: Improving risk profile



Source: Company data, I-Sec Research

Chart 10: Assets acquired in satisfaction of claims

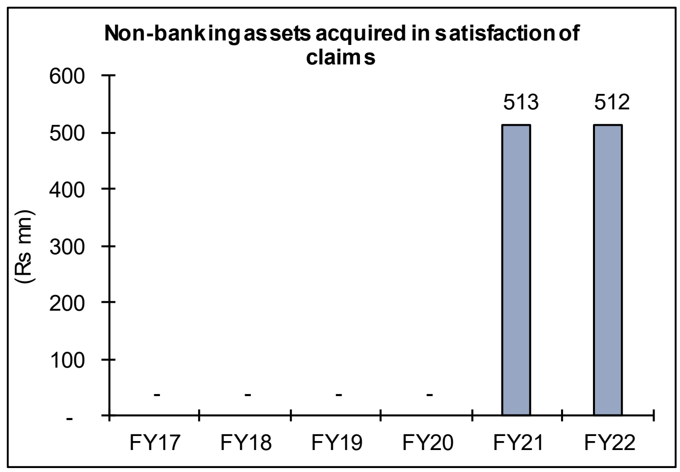
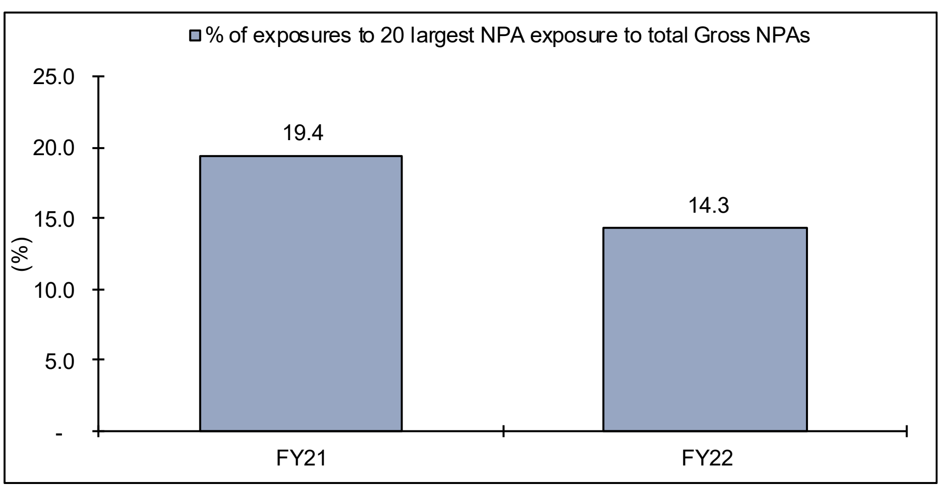


Chart 11: Exposure to top-20 largest NPA exposure has fallen considerably in FY22 vs. FY21



Source: Company data, I-Sec research

Table 4:Broad-based improvement in GNPA trajectory but for agri

Particulars (Rs bn)	GNPA					Funded Exposure					GNPA (%)				
	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
Agriculture - Allied	6.2	6.6	7.7	9.7	13.0	162	189	223	252	316	3.8	3.5	3.4	3.8	4.1
Agriculture Produce - Trade	1.5	2.8	3.6	2.2	2.5	96	118	93	146	88	1.6	2.4	3.9	1.5	2.9
Agriculture Production - Food	12.2	16.0	22.5	21.0	23.6	315	330	313	338	351	3.9	4.9	7.2	6.2	6.7
Agriculture Production - Non food	4.2	5.5	5.2	6.6	8.3	199	191	172	163	168	2.1	2.9	3.1	4.1	4.9
Automobile & Auto Ancillary	2.6	4.3	5.4	7.9	7.7	301	349	346	400	463	0.9	1.2	1.6	2.0	1.7
Banks	0.0	0.0	0.0	0.0	0.0	307	211	173	182	196	0.0	0.0	0.0	0.0	0.0
Business Services	2.0	3.1	2.6	4.0	4.6	201	235	246	249	289	1.0	1.3	1.1	1.6	1.6
Capital Market Intermediaries	0.0	0.0	3.7	3.9	3.4	37	49	28	13	18	0.0	0.0	13.2	29.5	18.9
Cement & Products	0.1	0.1	0.2	0.3	0.3	57	80	129	118	98	0.2	0.1	0.1	0.2	0.3
Chemical and Products	0.3	0.2	0.2	0.2	0.2	61	72	92	109	152	0.4	0.2	0.2	0.2	0.1
Coal & Petroleum Products	0.1	0.2	0.2	0.4	0.4	50	89	168	359	406	0.3	0.2	0.1	0.1	0.1
Consumer Durables	0.2	0.3	0.4	0.8	0.9	48	60	79	85	127	0.4	0.5	0.6	0.9	0.7
Consumer Loans	14.5	22.2	17.2	31.9	31.5	1,968	2,497	3,104	3,396	3,890	0.7	0.9	0.6	0.9	0.8
Consumer Services	2.8	3.8	5.4	8.3	9.8	299	352	401	425	465	0.9	1.1	1.4	1.9	2.1
Drugs and Pharmaceuticals	0.4	0.4	0.4	0.3	0.7	54	63	78	96	127	0.8	0.6	0.6	0.3	0.5
Engineering	0.7	1.8	2.4	2.5	4.1	132	158	245	202	260	0.6	1.1	1.0	1.2	1.6
Fertilisers & Pesticides	0.0	0.0	0.0	0.0	0.0	78	86	124	104	33	0.0	0.0	0.0	0.0	0.1
Financial Institutions	0.0	0.0	0.0	0.0	0.0	0	179	369	568	1,117	N/A	0.0	0.0	0.0	0.0
Financial Intermediaries	0.0	0.0	0.7	0.1	0.0	0	142	100	79	65	N/A	0.0	0.7	0.2	0.0
FMCG & Personal Care	0.1	0.2	0.4	0.6	0.6	27	29	33	45	54	0.4	0.8	1.1	1.2	1.1
Food and Beverage	6.1	8.6	8.0	6.1	6.7	201	224	262	343	433	3.0	3.8	3.0	1.8	1.5
Gems and Jewellery	1.3	1.1	0.5	0.6	0.9	84	100	78	125	132	1.5	1.1	0.7	0.5	0.7
Housing Finance Companies	0.0	0.0	4.0	4.9	1.4	165	193	194	274	306	0.0	0.0	2.0	1.8	0.5
Information Technology	0.6	0.6	0.8	0.7	2.1	40	34	45	42	59	1.4	1.9	1.8	1.8	3.5
Infrastructure Development	3.7	4.0	5.4	5.3	6.1	114	136	167	183	291	3.2	2.9	3.2	2.9	2.1
Iron and Steel	2.4	1.2	1.2	1.1	0.8	122	184	225	261	334	1.9	0.7	0.5	0.4	0.2
Media & Entertainment	0.0	0.0	0.3	N/A	N/A	0	19	31	N/A	N/A	N/A	0.0	1.1	N/A	N/A
Mining and Minerals	0.3	1.2	2.0	1.8	1.6	51	67	69	132	111	0.6	1.8	2.9	1.3	1.4
NBFC	0.1	0.1	0.1	0.1	0.1	409	334	414	523	622	0.0	0.0	0.0	0.0	0.0
Non-ferrous Metals	0.1	0.2	0.8	0.8	0.7	40	66	83	117	123	0.3	0.3	1.0	0.7	0.6
Other non-metallic mineral products	N/A	N/A	N/A	0.2	0.1	N/A	N/A	N/A	33	53	N/A	N/A	N/A	0.6	0.3
Paper, Printing and Stationery	1.6	1.9	0.7	0.5	0.6	37	41	46	65	93	4.3	4.6	1.4	0.7	0.7
Plastic & Products	0.2	0.2	2.5	2.5	2.6	40	49	54	68	89	0.4	0.4	4.6	3.7	2.9
Power	0.1	0.1	0.1	4.0	2.2	161	230	498	705	741	0.1	0.0	0.0	0.6	0.3
Real Estate & Property Services	4.0	4.2	5.1	2.3	1.9	232	256	285	303	388	1.7	1.6	1.8	0.8	0.5
Retail Trade	6.3	7.7	8.4	13.5	14.2	377	444	533	537	589	1.7	1.7	1.6	2.5	2.4
Road Transportation	3.3	5.5	13.5	15.3	12.1	308	375	376	365	403	1.1	1.5	3.6	4.2	3.0
Telecom	0.6	0.5	0.1	0.1	0.2	144	255	241	173	334	0.4	0.2	0.0	0.1	0.0
Textiles & Garments	2.1	2.5	2.6	3.8	3.5	160	187	215	264	331	1.3	1.4	1.2	1.4	1.1
Wholesale Trade - Industrial	3.5	3.7	3.9	3.5	4.6	164	188	212	259	347	2.1	1.9	1.8	1.4	1.3
Wholesale Trade - Non Industrial	2.9	3.6	3.9	5.0	5.2	179	196	238	304	418	1.6	1.9	1.6	1.6	1.2
Other Industries	5.8	7.4	8.9	10.3	11.3	419	497	619	645	873	1.4	1.5	1.4	1.6	1.3
Total	**93.0**	**121.8**	**151.1**	**182.9**	**190.6**	**7,842**	**9,556**	**11,402**	**13,050**	**15,755**	**1.3**	**1.4**	**1.3**	**1.3**	**1.2**

Source: Company data, I-Sec research

Table 5: Of the gross restructured pool, 13% slipped into NPAs, 4% was written-off and 3% was repaid

(Rs mn)

Type of Borrower	Exposure to accounts classified as Standard consequent to implementation of resolution plan –i.e. September 30, 2021 (A)	Of (A), aggregate debt that slipped into NPA during the halfyear ended March 31, 2022	Of (A), amount written off during the half-year#	Of (A), amount paid by the borrowers during the half – year	Exposure to accounts classified as Standard consequent to implementation of resolution plan - March 31, 2022
Personal loans	1,15,888	15,943	6,201	2,130	97,816
Corporate persons	18,343	1,286	16	1,933	15,124
of which, MSMEs	1,599	57	6	0	1,542
Others	24,574	3,032	220	582	20,961
Total	**1,58,806**	**20,261**	**6,437**	**4,644**	**1,33,900**

Source: Company data, I-Sec research

Table 6: MSME restructuring under RBI guidelines issued in January 2019

	Mar-20	Mar-21	Mar-22
No. of accounts restructured	27	2,82,589	2,87,562
Amt o/s (Rs mn)	481	33,914	68,744
Average o/s per account (Rs mn)	**17.82**	**0.12**	**0.24**

Source: Company data, I-Sec research

Table 7: HDB Financial Services' restructured portfolio at <60bps of advances

(Rs mn, except no. of accs)

Type of Borrower	Exposure to accounts classified as Standard consequent to implementation of resolution plan - Position as at the end of the previous halfyear i.e. September 30, 2021 (A)	Of (A), aggregate debt that slipped into NPA during the halfyear ended March 31, 2022	Of (A), amount written off during the half-year#	Of (A), amount paid by the borrowers during the half-year ended March 31,2022	Exposure to accounts classified as Standard consequent to implementation of resolution plan - Position as at the end of this half-year i.e. March 31, 2022
Personal loans	3,278	492	-	216	2,570
Corporate persons	534	-	-	76	458
of which, MSMEs	534	-	-	76	458
Others	3	-	-	0	3
Total	**3,815**	**492**	**-**	**292**	**3,031**

2021 pursuant to Resolution Framework - 2.0: Resolution of Covid-19 related stress of Micro, Small and Medium Enterprises (MSMEs) and Disclosure pursuant to Reserve Bank of India Circular dated May 05, 2021 pertaining to Resolution Framework - 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses.
Source: Company data, I-Sec research

Corporate investments – not much reliance on credit substitute

Table 8: Corporate bond portfolio constitutes ~14% of investments and 3% of asset base

(Rs mn)

	FY17	FY18	FY19	FY20	FY21	FY22
Invt in debentures & bonds	1,94,698	3,47,873	2,86,970	2,58,012	6,17,897	6,47,084
Total Investments	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	45,55,357
Total Assets	86,38,401	1,06,39,343	1,24,45,407	1,53,05,113	1,74,68,705	2,06,85,351
As a % of total investments	**9.1%**	**14.4%**	**9.9%**	**6.6%**	**13.9%**	**14.2%**
As a % of total assets	**2.25%**	**3.27%**	**2.31%**	**1.69%**	**3.54%**	**3.13%**

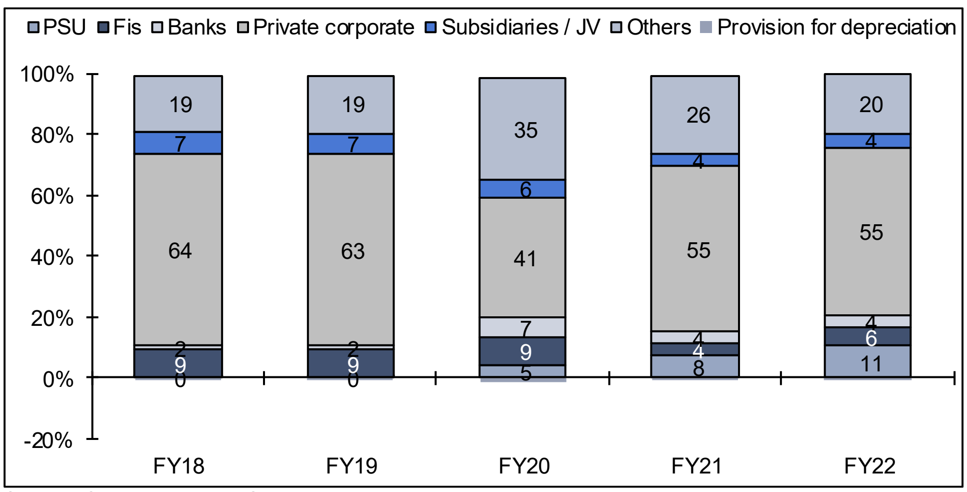
Source: Company data, I-Sec research

Table 9: Investments in private corporates stable YoY

Particulars (Rs mn)	FY18	FY19	FY20	FY21	FY22
PSU	225	225	3,122	7,059	9,373
Fis	4,723	4,723	6,263	3,491	5,467
Banks	839	839	4,483	3,643	3,676
Private corporate	33,929	33,830	27,709	50,844	49,264
Subsidiaries / JV	3,826	3,826	3,826	3,826	3,826
Others	10,129	10,228	23,520	24,133	17,518
Provision for depreciation	-259	-259	-978	-409	-117
Total	**53,414**	**53,414**	**67,946**	**92,587**	**89,008**

Source: Company data, I-Sec research

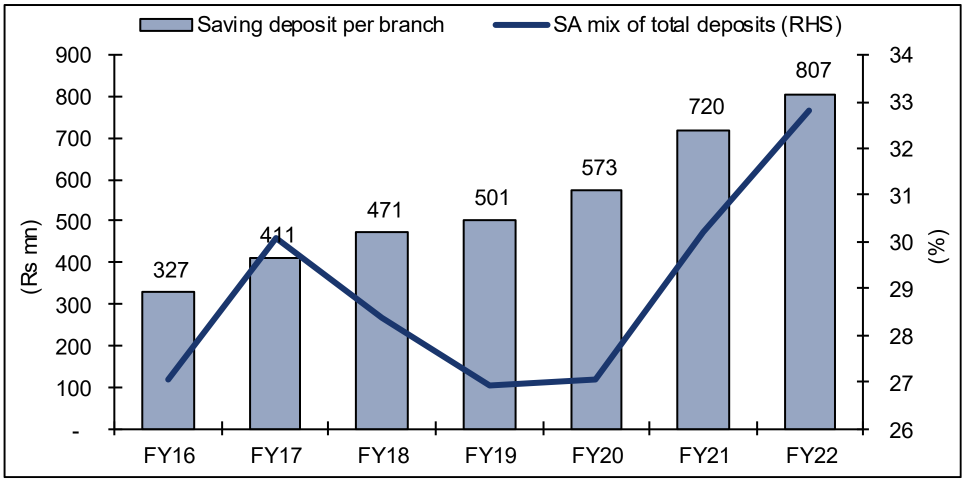
Chart 12: Private corporates not actively tapping debt market for raising resources unlike FY21



Source: Company data, I-Sec research

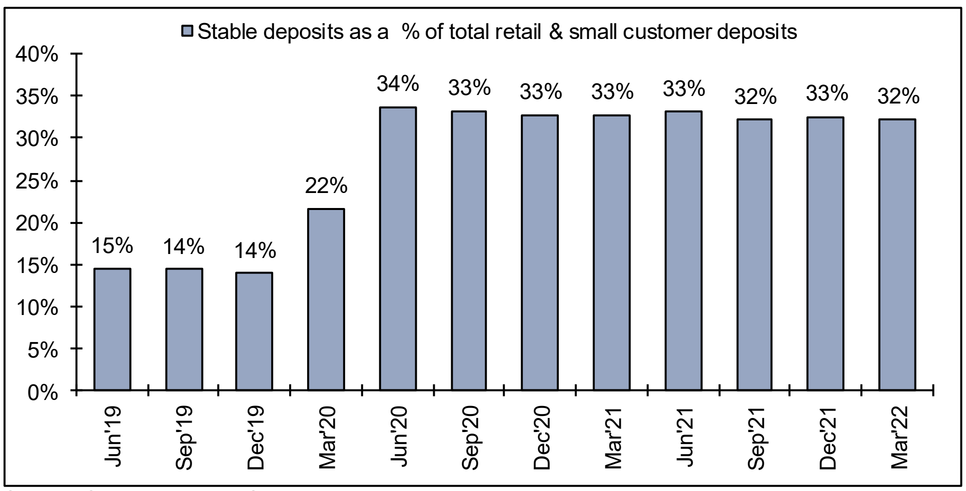
Granular deposit profile with improving productivity

Chart 13: Savings deposits per branch has risen significantly



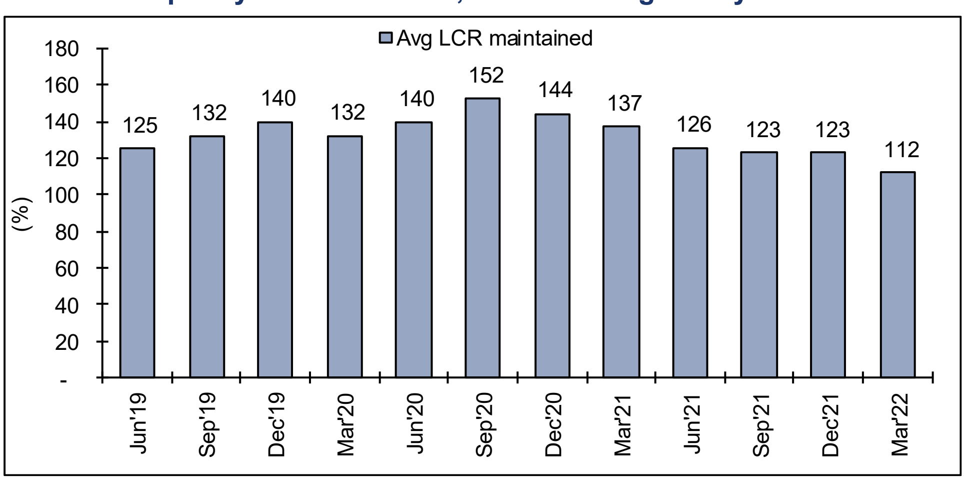
Source: Company data, I-Sec research

Chart 14: LCR disclosure: one-third of retail deposits are stable



Source: Company data, I-Sec research

Chart 15: Liquidity cooled off a bit, but above regulatory limits



Source: Company data, I-Sec research

Table 10: Well matched ALM with gradual rise in advances in >3 years bucket

Particulars (%)	Upto 3mths	3mths to 1 yr	Over 1 -3 years	Over 3 - 5 years	Over 5 years
FY22					
Loans & advances	15	14	41	14	17
Investments	34	11	35	3	17
Deposits	16	11	43	1	28
Borrowings	34	23	26	10	7
Foreign currency assets	73	19	5	2	1
Foreign currency liabilities	50	24	11	10	4
FY21					
Loans & advances	16	18	43	11	12
Investments	42	9	33	2	15
Deposits	18	13	40	1	28
Borrowings	39	16	29	6	11
Foreign currency assets	69	21	8	1	0
Foreign currency liabilities	38	30	16	2	15
FY20					
Loans & advances	17	20	42	10	11
Investments	56	10	19	2	12
Deposits	20	15	37	1	26
Borrowings	55	8	13	6	18
Foreign currency assets	69	23	6	2	0
Foreign currency liabilities	47	23	12	2	16
FY19					
Loans & advances	17	19	45	10	9
Investments	42	16	26	3	13
Deposits	17	20	39	2	22
Borrowings	33	24	13	10	20
Foreign currency assets	75	17	6	1	0
Foreign currency liabilities	38	31	12	2	17
FY18					
Loans & advances	15	19	47	10	8
Investments	37	17	29	4	13
Deposits	19	24	39	2	17
Borrowings	27	30	15	14	14
Foreign currency assets	72	16	8	3	1
Foreign currency liabilities	35	35	11	3	15

Source: Company data, I-Sec research

Income and expenditure profile

Table 11: Opex growth has been in-line with business growth

Particulars (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Payments to and provisions for employees	57,022	64,837	68,057	1,04,511	1,29,201	1,03,648	1,20,317
Rent, taxes and lighting	12,326	13,374	14,198	15,775	17,796	16,982	16,409
Printing and stationery	4,235	4,758	4,803	5,262	4,484	4,291	5,286
Advertisement and publicity	2,484	1,475	1,652	1,594	1,004	955	2,161
Depreciation on bank's property	7,058	8,331	9,063	12,207	12,768	13,024	15,998
Directors' fees / remuneration, allowances and expenses	26	32	30	36	40	51	71
Auditors' fees and expenses	19	26	26	36	38	46	63
Law charges	999	1,249	1,648	1,419	1,587	1,366	2,548
Postage, telegram, telephone etc.	3,997	4,150	4,456	4,491	4,716	4,808	5,698
Repairs and maintenance	10,287	12,562	12,934	12,835	12,934	16,163	17,259
Insurance	5,613	6,907	8,273	10,425	12,295	17,228	19,094
Other expenditure	65,730	79,333	1,01,763	1,08,356	1,33,496	1,48,663	1,69,519
Total	**1,69,797**	**1,97,033**	**2,26,904**	**2,76,948**	**3,30,361**	**3,27,226**	**3,74,422**

% of total	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Payments to and provisions for employees	34%	33%	30%	38%	39%	32%	32%
Rent, taxes and lighting	7%	7%	6%	6%	5%	5%	4%
Printing and stationery	2%	2%	2%	2%	1%	1%	1%
Advertisement and publicity	1%	1%	1%	1%	0%	0%	1%
Depreciation on bank's property	4%	4%	4%	4%	4%	4%	4%
Directors' fees / remuneration, allowances and expenses	0%	0%	0%	0%	0%	0%	0%
Auditors' fees and expenses	0%	0%	0%	0%	0%	0%	0%
Law charges	1%	1%	1%	1%	0%	0%	1%
Postage, telegram, telephone etc.	2%	2%	2%	2%	1%	1%	2%
Repairs and maintenance	6%	6%	6%	5%	4%	5%	5%
Insurance	3%	4%	4%	4%	4%	5%	5%
Other expenditure	39%	40%	45%	39%	40%	45%	45%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

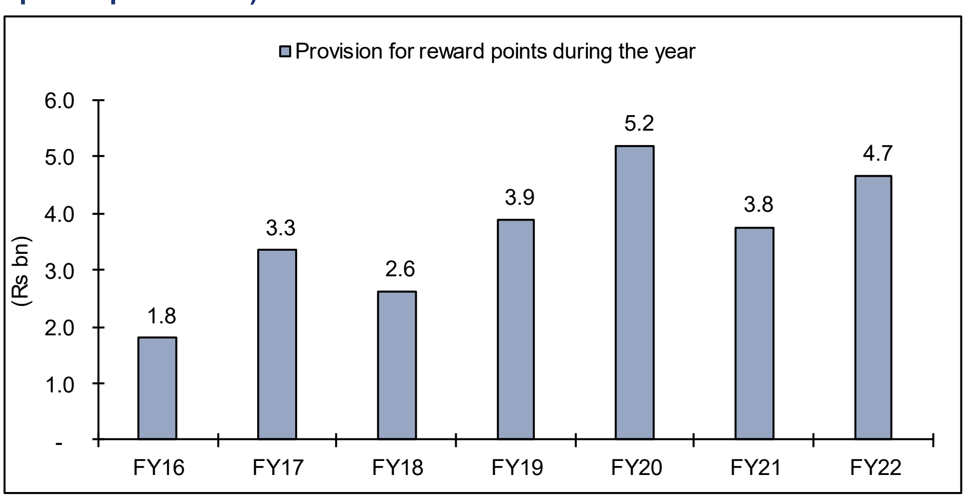
Source: Company data, I-Sec research

Table 12: DICGC premium cost largely stable YoY

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22
Insurance	6,907	8,273	10,414	12,292	17,228	19,094
Total opex	1,97,033	2,26,904	2,61,194	3,06,975	3,27,226	3,74,422
Total opex ex-employee cost	1,32,197	1,58,846	1,83,576	2,11,719	2,23,578	2,54,105
Total deposits	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,55,92,174
As a % of total opex	**3.5%**	**3.6%**	**4.0%**	**4.0%**	**5.3%**	**5.1%**
As a % of total opex ex-employee cost	**5.2%**	**5.2%**	**5.7%**	**5.8%**	**7.7%**	**7.5%**
As a % of total deposits (bps)	**11**	**10**	**11**	**11**	**13**	**12**

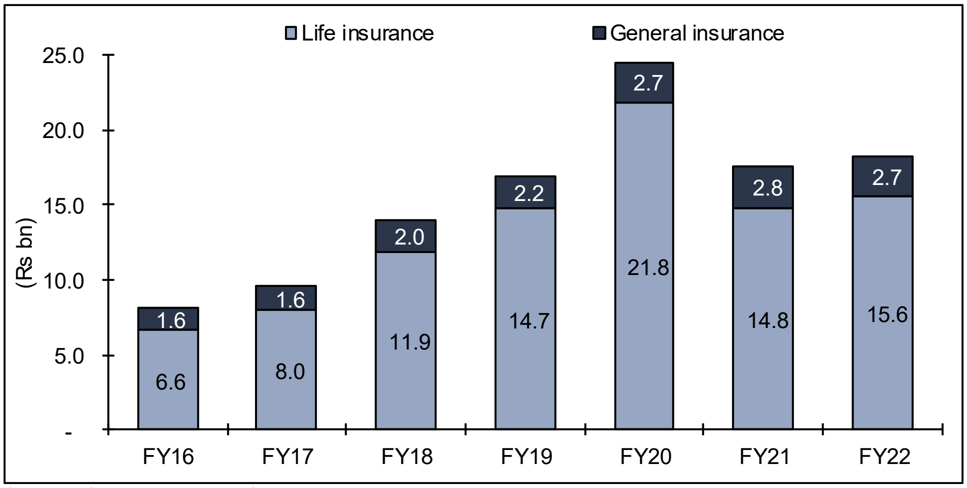
Source: Company data, I-Sec research

Chart 16: Provision for reward points in FY22 was managed well (despite higher spends post covid)



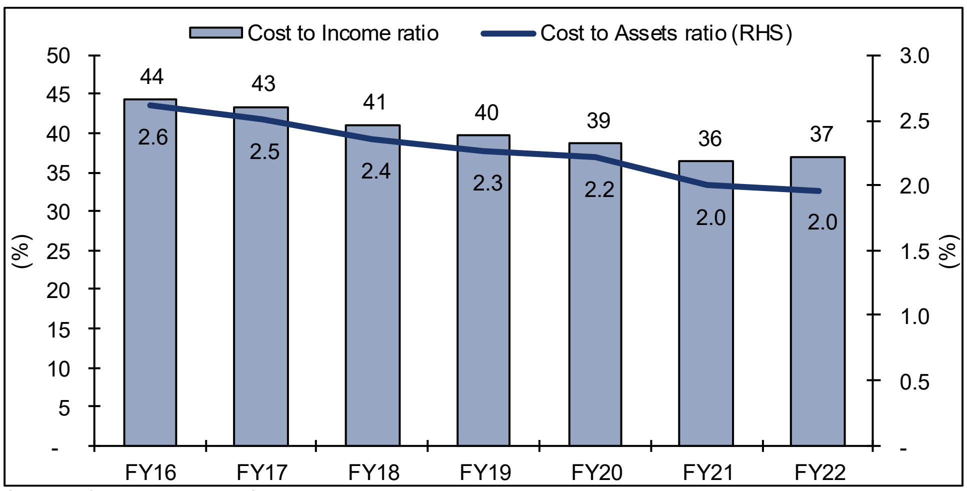
Source: Company data, I-Sec research

Chart 17: Third party distribution income constitutes 23% of fee income



Source: Company data, I-Sec research

Chart 18: Investing in franchise led to higher opex



Source: Company data, I-Sec research

ESOP

Table 13: ESOP granted almost equivalent to 0.6% of outstanding shares

In mn	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Options granted	90	-	34	40	48	57	33
O/S shares	5,056	5,125	5,190	5,447	5,483	5,513	5,546
Options granted as a % of o/s shares	1.8	-	0.7	0.7	0.9	1.0	0.6

Source: Company data, I-Sec research

Table 14: Top-management's remuneration broadly in-line with business growth

Rs mn	Designation	FY18	FY19	FY20	FY21	FY22
Aditya Puri	MD	96	137	189	138	
Sashidhar Jagdishan	MD					65
Kaizad Bharucha	Executive Director	43	59	86	60	106
Employee expense		68,057	77,618	95,257	1,03,648	1,20,317

Source: Company data, I-Sec research

Table 15: Assumptions for gratuity liability

Particulars (%)	FY18	FY19	FY20	FY21	FY22
Discount rate	7.5	7.6	6.6	6.5	6.8
Expected return on plan assets	7.0	7.0	7.0	6.5	6.5
Salary escalation rate	8.0	8.0	7.0	7.0	7.0

Source: Company data, I-Sec research

Table 16: Assumptions for pension liability

Particulars (%)	FY18	FY19	FY20	FY21	FY22
Discount rate	7.5	7.6	6.6	6.5	6.8
Expected return on plan assets	7.0	7.0	7.0	6.5	6.5
Salary escalation rate	8.0	8.0	7.0	7.0	7.0

Source: Company data, I-Sec research

Table 17: Options granted and exercised under ESOP schemes

(Rs mn)

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Options outstanding, beginning of year	218	257	184	151	137	143	168
Granted during the year	90	-	34	40	48	57	26
Exercised during the year	43	69	65	48	37	29	33
Forfeited / Lapsed during the year	7	4	2	7	5	3	3
Options outstanding, end of year	257	184	151	137	143	168	158
Options exercisable	99	113	94	81	64	64	65

Source: Company data, I-Sec research

Attrition and new hiring

Table 18: Employee by Age

	FY21			FY22		
	Male	Female	Total	Male	Female	Total
<30	30,713	10,257	**40,970**	41,035	13,892	**54,927**
30-50	66,818	11,348	**78,166**	72,310	12,880	**85,190**
>50	816	141	**957**	1,237	225	**1,462**
Total	**98,347**	**21,746**	**1,20,093**	**1,14,582**	**26,997**	**1,41,579**

Source: Company data, I-Sec research

Table 19: Attrition rate was relatively higher in FY22 at 25% – 36k employees (vs 18.3k in FY21)

	FY21			FY22			FY22 Attrition rate		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Attritiion by category									
Senior management	4	0	**4**	13	0	**13**	10.5%	0.0%	**9.4%**
Junior & middle management	786	171	**957**	1,804	377	**2,181**	8.4%	10.8%	**8.7%**
Non supervisory staff	6,390	2,555	**8,945**	13,080	4,751	**17,831**	21.6%	24.7%	**22.4%**
Total	**7,180**	**2,726**	**9,906**	**14,897**	**5,128**	**20,025**	**18.2%**	**22.5%**	**19.1%**
Frontline staff & sales officers	7,335	1,108	**8,443**	14,268	1,820	**16,088**	43.8%	42.9%	**43.7%**
Attritiion by age									
<30	7,256	2,515	**9,771**	15,009	4,453	**19,462**	36.6%	32.1%	**35.4%**
30-50	7,201	1,311	**8,512**	14,066	2,485	**16,551**	19.5%	19.3%	**19.4%**
>50	58	8	**66**	90	10	**100**	7.3%	4.4%	**6.8%**
Total	**14,515**	**3,834**	**18,349**	**29,165**	**6,948**	**36,113**	**25.5%**	**25.7%**	**25.5%**

Source: Company data, I-Sec research

Table 20: New hiring was relatively higher in FY22 at 40% – 57.3k employees (vs 21.5k in FY21)

	FY21			FY22			FY22 hire rate		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
New hires by category									
Senior management	6	0	**6**	9	2	**11**	7.3%	13.3%	**7.9%**
Middle management	119	18	**137**						
Non supervisory staff	8,441	3,213	**11,654**	3,597	647	**4,244**	16.8%	18.5%	**17.0%**
Junior management	940	170	**1,110**	18,971	7,951	**26,922**	31.4%	41.3%	**33.8%**
Frontline staff & sales officers	7,790	774	**8,564**	22,446	3,628	**26,074**	69.0%	85.4%	**70.9%**
Total	**17,296**	**4,175**	**21,471**	**45,023**	**12,228**	**57,251**	**39.3%**	**45.3%**	**40.4%**
New hires by age									
<30	10,801	3,218	**14,019**	27,848	8,826	**36,674**	67.9%	63.5%	**66.8%**
30-50	6,491	955	**7,446**	17,143	3,390	**20,533**	23.7%	26.3%	**24.1%**
>50	4	2	**6**	32	12	**44**	2.6%	5.3%	**3.0%**
Total	**17,296**	**4,175**	**21,471**	**45,023**	**12,228**	**57,251**	**39.3%**	**45.3%**	**40.4%**
New hires by region									
East	2,180	336	**2,516**	5,283	858	**6,141**	36.9%	38.6%	**37.1%**
West	6,142	1,569	**7,711**	16,507	4,538	**21,045**	39.2%	43.9%	**40.1%**
South	4,505	1,271	**5,776**	11,252	3,652	**14,904**	42.4%	50.4%	**44.0%**
North	4,469	995	**5,464**	11,973	3,167	**15,140**	38.0%	44.3%	**39.2%**
Abroad	0	4	**4**	8	13	**21**	7.8%	35.3%	**13.6%**
Total	**17,296**	**4,175**	**21,471**	**45,023**	**12,228**	**57,251**	**39.3%**	**45.3%**	**40.4%**

Source: Company data, I-Sec research

Priority sector lending

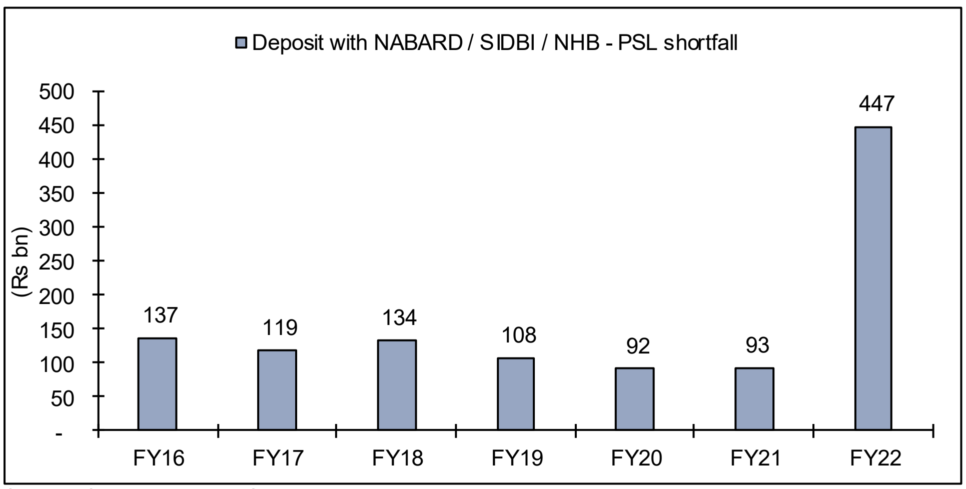
Table 21: Bank has bought Rs1trn of PSL certificates (PSLC) in FY22 (vs Rs843bn in FY22) with incremental certificates skewed more towards micro enterprise and general category

Type of PSLCs (Rs bn)	FY17		FY18		FY19		FY20		FY21		FY22	
	PSL bought	PSL sold	PSL bought	PSL sold	PSL bought	PSL sold	PSL bought	PSL sold	PSL bought	PSL sold	PSL bought	PSL sold
Agriculture	-	5	-	-	56	5	103	-	30	-	7	-
Small and marginal farmers	33	0	223	-	313	0	421	-	6	-	9	-
Micro enterprises	-	-	55	-	73	-	57	30	188	-	313	-
General	-	10	-	7	18	112	64	138	618	20	677	-
Total	**33**	**15**	**278**	**7**	**460**	**117**	**645**	**168**	**843**	**20**	**1,006**	**-**

Particulars (Rs bn)	PSL bought	PSL sold	Net PSL bought
FY17	33	15	17
FY18	278	7	270
FY19	460	117	343
FY20	645	168	478
FY21	843	20	823
FY22	1,006	-	1,006

Source: Company data, I-Sec research

Chart 19: Deposits with NABARD/SIDBI/NHB for PSL shortfall have spiked to Rs447bn (vs Rs93bn in FY22)



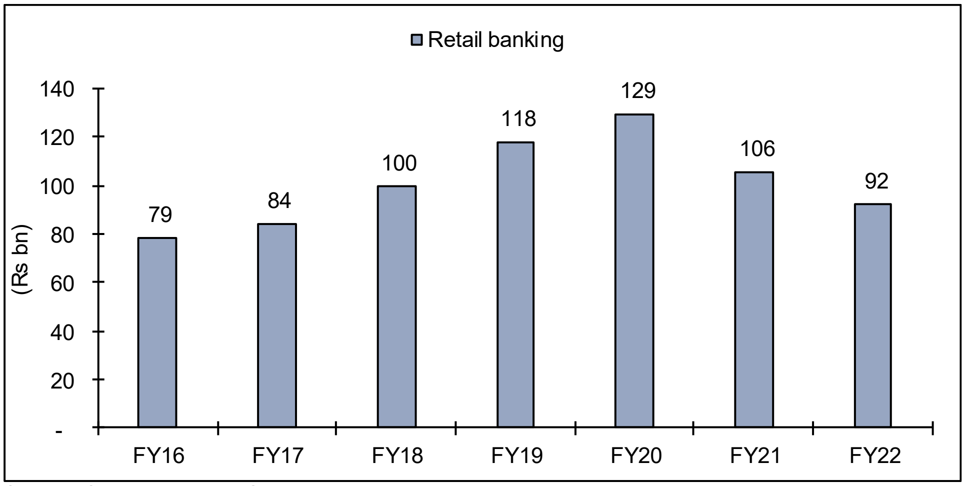
Source: Company data, I-Sec research

Segmental profitability

Table 22: Earnings buoyed by wholesale segment

Segment results (Rs bn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	CAGR (FY20-22)
Treasury	15	17	15	13	35	90	89	61%
Retail banking	79	84	100	118	129	106	92	-16%
Wholesale banking	79	101	117	142	141	174	251	33%
Other banking operations	28	34	55	68	78	62	74	-3%
Total	**201**	**236**	**287**	**341**	**383**	**432**	**506**	**15%**
Unallocated expenses	14	14	20	19	17	16	16	-3%
Income tax expense	63	76	92	111	103	105	121	8%
Net profit	**123**	**145**	**175**	**211**	**263**	**311**	**370**	**19%**

Chart 20: Retail banking profitability down ~30% from FY20 levels



Source: Company data, I-Sec research

Other highlights

Chart 21: Key initiatives in the pipeline

Vyapaar

- Digital onboarding of merchants for payment acceptance and servicing of banking transactions for the merchant community

Xpress Car Loans

- A digital API platform for Auto Financing launched in April 2022

PayZapp 2.0

- Enhanced experience of App. Customers to onboard, autolink HDFC Bank cards, wallet & limit management, transaction display via rich statements

SME customer experience transformation

- New technology to support business volume at larger scale, re-vamp the entire SME customer experience across Commercial and Retail business lines

Biz Express

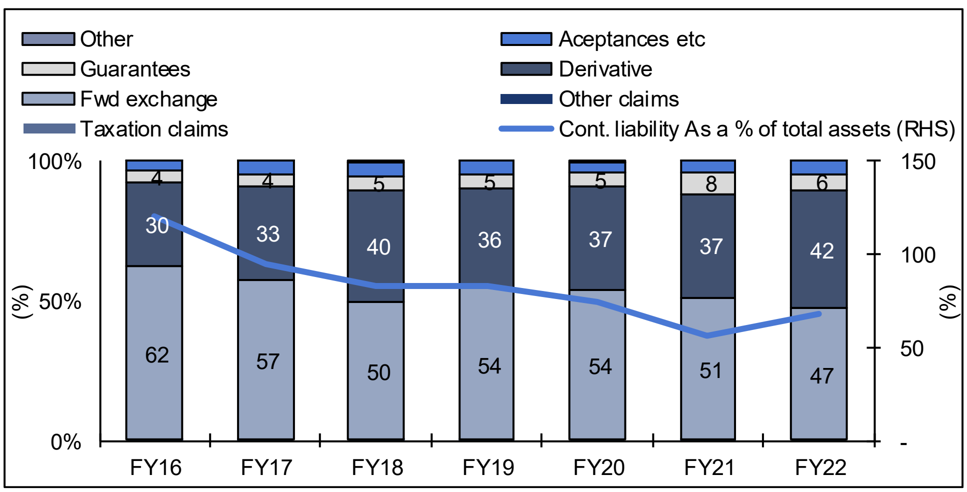
- A new web portal for SME segments covering digital onboarding, managing multiple accounts, making payments with hierarchy, raising GST compliant invoices for payment, multiple collection modes, raise service requests online, etc.

Wealth App

- A new Wealth Management app with client self-profiling, goal setting, mutual fund order execution and portfolio re-balancing

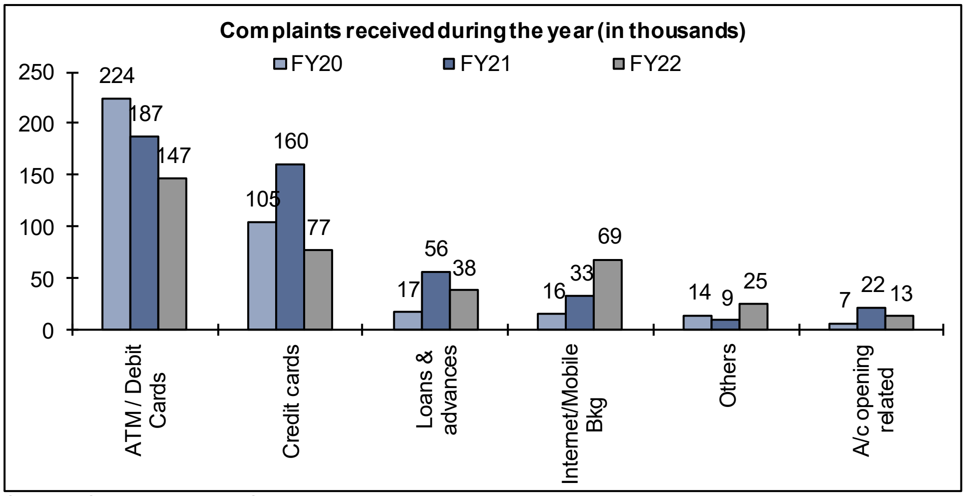
Source: Company data, I-Sec research

Chart 22: Contingent liability as % of assets broadly stable



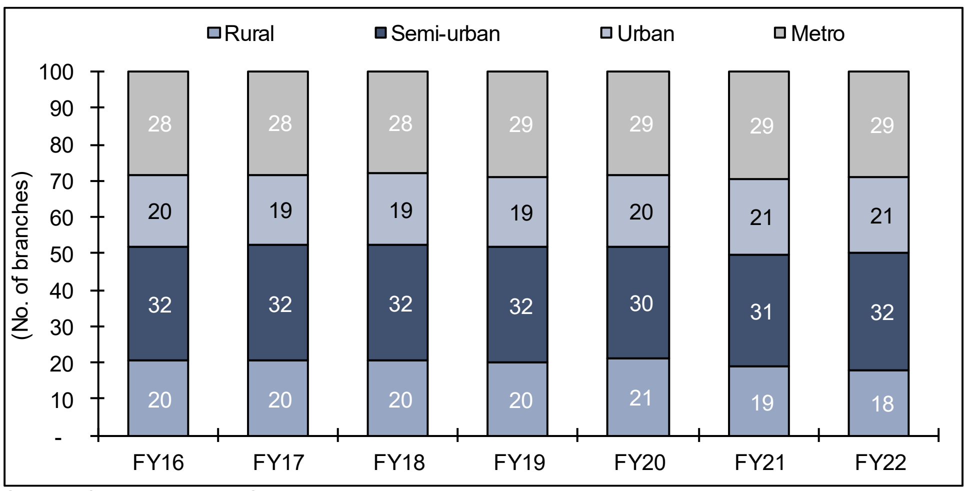
Source: Company data, I-Sec research

Chart 23: Not much rise in complaints received in FY22



Source: Company data, I-Sec research

Chart 24: 50% network presence in semi-urban and rural markets



Source: Company data, I-Sec research

Financial summary

Table 23: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	3,31,392	4,00,949	4,82,432	5,61,862	6,48,796	7,20,096	8,40,450	10,21,826
% Growth	20	21	20	16	15	11	17	22
Fee income	88,116	1,13,939	1,38,055	1,63,337	1,61,692	1,95,367	2,38,348	2,81,250
Add: Other income	34,849	38,264	38,203	69,273	90,357	99,732	1,14,490	1,20,155
Total Net Income	**4,54,357**	**5,53,152**	**6,58,691**	**7,94,473**	**9,00,845**	**10,15,195**	**11,93,288**	**14,23,231**
% Growth	18	22	19	21	13	13	18	19
Less: Operating Expenses	(1,97,033)	(2,26,904)	(2,61,194)	(3,06,975)	(3,27,226)	(3,74,422)	(4,31,788)	(4,97,952)
Pre-provision operating profit	**2,57,324**	**3,26,248**	**3,97,497**	**4,87,497**	**5,73,618**	**6,40,773**	**7,61,500**	**9,25,279**
NPA Provisions	**(31,453)**	**(49,104)**	**(63,941)**	**(90,893)**	**(46,716)**	**(1,01,049)**	**(1,49,100)**	**(1,87,965)**
Other provisions	(4,480)	(10,171)	(11,560)	(30,531)	(1,10,312)	(49,570)	(19,892)	(23,608)
PBT	**2,21,391**	**2,66,973**	**3,21,997**	**3,66,074**	**4,16,590**	**4,90,153**	**5,92,508**	**7,13,706**
Less: taxes	(75,894)	(92,106)	(1,11,215)	(1,03,498)	(1,05,425)	(1,20,541)	(1,49,134)	(1,79,640)
PAT	**1,45,496**	**1,74,867**	**2,10,782**	**2,62,575**	**3,11,166**	**3,69,612**	**4,43,374**	**5,34,066**
% Growth	18	20	21	25	19	19	20	20

Source: Company data, I-Sec research

Table 24: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	5,125	5,190	5,447	5,483	5,513	5,546	5,546	5,546
Reserve & Surplus	8,89,498	10,57,760	14,86,617	17,04,377	20,31,695	23,95,384	27,96,584	32,88,477
Deposits	64,36,397	78,87,706	92,31,409	1,14,75,023	1,33,50,602	1,55,92,174	1,83,98,766	2,20,78,519
Borrowings	7,39,588	10,19,980	11,70,851	14,46,285	13,54,873	18,48,172	19,15,339	21,82,039
Other liabilities	5,67,793	6,68,707	5,51,083	6,73,944	7,26,022	8,44,075	8,60,956	8,78,176
Total liabilities	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,39,77,191**	**2,84,32,756**
Cash & Bank Balances	4,89,521	12,29,151	8,13,476	8,66,187	11,94,704	15,23,269	13,83,234	14,34,715
Investment	21,44,633	24,22,002	29,05,879	39,18,267	44,37,283	45,55,357	52,38,661	61,81,619
Advances	55,45,682	65,83,331	81,94,012	99,37,029	1,13,28,366	1,36,88,209	1,64,34,921	2,00,48,333
Fixed Assets	36,267	36,072	40,300	44,319	49,093	60,837	58,013	62,573
Other Assets	4,22,298	3,68,787	4,91,740	5,39,311	4,59,259	8,57,678	8,62,363	7,05,515
Total Assets	**86,38,401**	**1,06,39,343**	**1,24,45,407**	**1,53,05,113**	**1,74,68,705**	**2,06,85,351**	**2,39,77,191**	**2,84,32,756**
% Growth	21.9	23.2	17.0	23.0	14.1	18.4	15.9	18.6

Source: Company data, I-Sec research

Table 25: Du-pont analysis

(%, year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	8.8	8.3	8.6	8.3	7.4	6.7	6.8	6.9
Interest expense	(4.6)	(4.2)	(4.4)	(4.2)	(3.4)	(2.9)	(3.0)	(3.0)
NII	**4.2**	**4.2**	**4.2**	**4.0**	**4.0**	**3.8**	**3.8**	**3.9**
Other income	0.4	0.4	0.3	0.5	0.6	0.5	0.5	0.5
Fee income	1.1	1.2	1.2	1.2	1.0	1.0	1.1	1.1
Total income	**5.8**	**5.7**	**5.7**	**5.7**	**5.5**	**5.3**	**5.3**	**5.4**
Operating expenses	(2.5)	(2.4)	(2.3)	(2.2)	(2.0)	(2.0)	(1.9)	(1.9)
Operating profit	**3.3**	**3.4**	**3.4**	**3.5**	**3.5**	**3.4**	**3.4**	**3.5**
NPA provision	**(0.4)**	**(0.5)**	**(0.6)**	**(0.7)**	**(0.3)**	**(0.5)**	**(0.7)**	**(0.7)**
Total provisions	(0.5)	(0.6)	(0.7)	(0.9)	(1.0)	(0.8)	(0.8)	(0.8)
PBT	**2.8**	**2.8**	**2.8**	**2.6**	**2.5**	**2.6**	**2.7**	**2.7**
Tax	(1.0)	(1.0)	(1.0)	(0.7)	(0.6)	(0.6)	(0.7)	(0.7)
PAT	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**	**2.0**	**2.0**

Source: Company data, I-Sec research

Table 26: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data								
EPS – Diluted (Rs)	28	34	39	48	56	67	80	96
% Growth	17	19	15	24	18	18	20	20
DPS (Rs)	5.5	6.5	7.5	0.0	6.5	6.5	6.5	6.5
Book Value per share (BVPS) (Rs)	175	205	274	312	370	433	505	594
% Growth	21	17	34	14	19	17	17	18
Adjusted BVPS (Rs)	172	202	270	307	363	426	498	586
% Growth	21	17	34	14	18	17	17	18
Valuations								
Price / Earnings (x)	46.9	39.5	34.4	27.8	23.6	20.0	16.6	13.8
Price / Book (x)	7.6	6.5	4.9	4.3	3.6	3.1	2.7	2.3
Price / Adjusted BV (x)	7.7	6.6	4.9	4.3	3.7	3.1	2.7	2.4
Asset Quality								
Gross NPA (Rs mn)	58,857	86,070	1,12,242	1,26,500	1,50,860	1,61,410	1,86,653	2,24,905
Gross NPA (%)	1.1	1.3	1.4	1.3	1.3	1.2	1.1	1.1
Net NPA (Rs mn)	18,440	26,010	32,145	35,424	50,424	50,424	54,924	61,924
Net NPA (%)	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3
NPA Coverage ratio (%)	69	70	71	72	67	69	71	72
Gross Slippages (%)	1.5	2.3	2.2	2.1	1.6	1.8	1.7	1.5
Credit Cost (%)	0.7	1.0	1.0	1.3	1.5	1.2	1.1	1.2
Net NPL/Net worth	2.1	2.4	2.2	2.1	2.5	2.1	2.0	1.9
Business ratios (%)								
RoAA	1.9	1.8	1.8	1.9	1.9	1.9	2.0	2.0
RoAE	17.9	17.9	16.5	16.4	16.6	16.7	17.0	17.5
Credit Growth	19.4	18.7	24.5	21.3	14.0	20.8	20.1	22.0
Deposits Growth	17.8	22.5	17.0	24.3	16.3	16.8	18.0	20.0
CASA	48.0	43.5	42.4	42.2	46.1	48.2	49.8	50.8
Credit / Deposit Ratio	86.2	83.5	88.8	86.6	84.9	87.8	89.3	90.8
Cost-Income ratio	43.4	41.0	39.7	38.6	36.3	36.9	36.2	35.0
Operating Cost / Avg. Assets	2.5	2.4	2.3	2.2	2.0	2.0	1.9	1.9
Fee Income / Avg Assets	1.1	1.2	1.2	1.2	1.0	1.0	1.1	1.1
Earnings ratios								
Yield on Advances	10.2	10.3	10.5	10.1	8.9	7.9	7.9	7.9
Yield on Earning Assets	9.3	8.7	8.9	8.6	7.6	7.0	7.1	7.2
Cost of Deposits	5.3	4.6	4.8	4.9	3.8	3.2	3.2	3.3
Cost of Funds	5.5	4.9	5.2	5.0	4.1	3.5	3.6	3.6
NIM	4.5	4.4	4.4	4.2	4.1	3.9	3.9	4.0
Capital Adequacy (%)								
RWA (Rs bn)	6,400	7,574	9,445	11,546	12,998	15,768	18,551	22,017
Core Tier-I	12.8	14.6	16.5	15.6	16.0	15.5	15.3	15.1

Source: Company data, I-Sec research

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