

## HDFC Bank

BUY

NIMs improved slightly; guided RoA to sustain

## Summary

HDFC Banks NIM improved by 4bps QoQ to 3.44% led by increase in yields while cost of funds remained flat. Further, management guided for NIM attrition will be function of high rate bonds replacement with deposits. Deposits grew by 7.5% QoQ (merged basis) led by retail term deposits while gross advances grew by 1.6% QoQ (merged basis) led by CRB book. Asset quality remained stable as GNPA stood at 1.29% vs 1.26% QoQ (merged basis). NII grew by 2% QoQ while PPop grew by 24% QoQ due to higher other income. PAT grew by 1% QoQ led by negative tax rate. We have downgraded FY25E/FY26E estimates (down 6%/5% respectively) led by lower loan growth and stable margins. We maintain BUY rating with the target price of Rs.1,872 (earlier Rs.2,090) valuing parent business at Rs.1,694 (2.2x P/ABV FY26 earlier 2.5x as margin improvement to be seen).

## Key Highlights and Investment Rationale

- **Robust deposit growth QoQ:** Deposits grew by 7.5% QoQ (merged basis) led by CASA deposits. On merged basis, gross advances grew by 1.6% QoQ led by Commercial rural banking (CRB) book (up 4.2% QoQ). Retail book grew by 3.5% QoQ while other wholesale book de-grew by 5% QoQ.
- **NIMs improved slightly QoQ:** NIMs improved by 4bps QoQ at 3.44% backed by increase in yields while cost of funds remains flat. Cost to income ratio increased to 41% QoQ led by Rs15bn ex-gratia provision.
- **Asset quality remains stable:** On merged basis, asset quality remains stable with GNPA at 1.24% vs 1.26% QoQ however slippages remain higher.
- **Outlook:** Post merger, bank guided for stability of RoA in the range of 1.9% - 2.0% led by lower credit cost and operating efficiency although margins to get impacted. We remain structurally positive on HDFCB given its superior credit underwriting, and the ability to maintain stable RoA post-merger.

TP Rs1,872

CMP Rs1,531

Potential upside/downside 22%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	7.0	3.6	(8.4)
Rel to Sensex	5.6	1.2	(31.0)

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	87.6	108.6
Consensus	94.7	110.3
% difference	(7.5)	(1.5)

## Key Stock Data

Bloomberg / Reuters	HDFCB IN/HDBK.BO
Sector	Bank
Shares o/s (mn)	7,597
Market cap. (Rs mn)	11,633,149
3-m daily average value (Rs mn)	1,393.4
52-week high / low	Rs1,758/1,363
Sensex / Nifty	72,186 / 21,929

## Shareholding Pattern (%)

Promoters	--
FII	47.8
DII	31.3
Public	20.9

## Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024*	FY2025E*	FY2026E*
NII	7,20,096	8,68,422	10,85,325	12,57,496	15,02,072
Net Profit	3,69,614	4,41,087	6,08,123	6,65,865	8,25,119
EPS (Rs)	66.7	79.1	80.0	87.6	108.6
ABV (Rs)	427.6	489.4	585.1	667.0	769.7
PER (x)	23.0	19.4	19.1	17.5	14.1
P/ABV (x)	3.6	3.1	2.6	2.3	2.0
ROE (%)	16.7	17.0	16.9	14.1	15.2
ROA (%)	1.9	1.9	2.0	1.7	1.9
GNPA (%)	0.8	1.3	1.2	1.4	1.4
NNPA (%)	0.2	0.4	0.3	0.3	0.3
CAR (%)	18.9	21.2	18.4	18.3	18.3

Source: IDBI Capital Research: Note: \* Merged figures

## Bunty Chawla

Bunty.chawla@idbicapital.com  
+91-22-4069 1843

## Rishit Savla

Rishit.savla@idbicapital.com  
+91-22-4069 1819

## Conference Call Highlights

### Operational Performance

- Core metrics have remained stable since the time the merger took place. The management believes that this highlights that the resiliency of the bank as a standalone franchise which is very strong despite adverse macro conditions.
- The bank's enhanced customer service quality and enhanced customer engagement has enabled it to attain a strong position from which it can continue to grow its retail deposit franchise.
- The bank has continued to gain market share in deposits while keeping the cost of deposits range-bound, which has led to stability of margins.
- The bank has built up its supervisory architecture with a major focus on customer satisfaction and turn around time for various services provided to customers and customer requests.
- However, the bank has maintained its underwriting standards and has not sacrificed the same while expanding to deeper geographies

### Advances and Deposits

- The primary focus will remain on enhancing the bank's core retail deposit franchise.
- In terms of the loan deposit ratio, the priority is to improve the deposits however the same is subject to the surrounding liquidity environment.
- Despite Q4 deposit mobilization remaining healthy, the management expects a certain dip in the same going forward in Q1FY25 and Q2FY25 based on historical patterns.
- The management will remain focused on maintaining the bank's cost of deposits and hence, expects the margins to remain stable in the medium-term.
- Historically, in a high interest rate scenario, the bank has seen muted CASA levels. However, the management intends to remain focused in improving the CASA ratio from the long term perspective.

### Future Guidance

- The medium to long term focus to be on improving the profitability matrix and improving ROA.
- The management believes that the key to improving the profitability matrix is to improve the share of the bank's retail deposit franchise quality.
- The Bank will continue to invest in people and technology hence, will continue to push for new digital innovations through investments in technology.
- The bank will continue to maintain an enhanced focus on improving customer satisfaction since the management views the same as a major driver for deposit mobilization.
- The bank is prioritizing to keep reserves in order to ensure it is able to meet its obligation for repayment of erstwhile HDFC bonds which are maturing every year.
- The management has iterated that the bank will not follow a price based strategy to achieve growth.
- The management expects to maintain stability in its margins going forward and also expects the LDR to remain slightly on the lower side as compared to the previous 2 financial years.
- Based on its previous experience, the management believes that the current price based growth strategy being adopted by competitors are short-term strategies and are not sustainable in their view.
- The management is of the opinion that the bank might have to rely on inorganic growth in order to meet its PSL requirements in terms of small ticket agricultural loans.

### Other Key highlights

- The management has chosen to make a floating provision in line with its risk management policies to create a counter-cyclical provision which the bank can use during any unanticipated adverse future event.
- The management did not see any stress on its asset quality and hence, chose to create a floating provision rather than a contingent provision.
- The floating provision is ~50bps as a % of the total loan book while the contingent provision is ~59bps as a % of the total loan book.
- The management believes that merger with the NBFC entity has created a new starting point across all metrics.

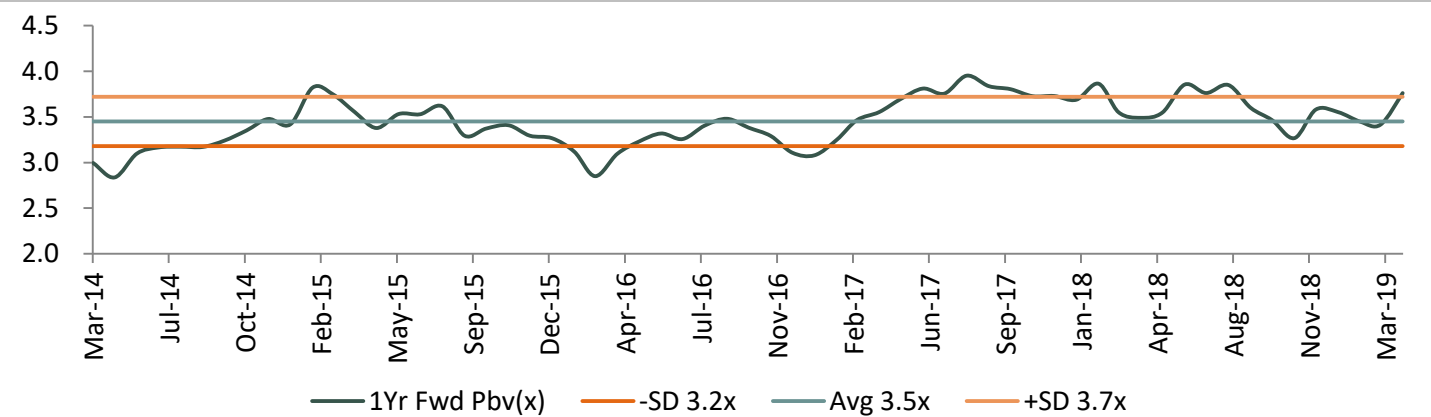
## Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	7,14,728	4,51,194	7,05,826	58.4	1.3
Interest Expenses	4,23,959	2,17,675	4,21,113	94.8	0.7
<b>Net Interest Income</b>	<b>2,90,768</b>	<b>2,33,518</b>	<b>2,84,713</b>	<b>24.5</b>	<b>2.1</b>
<b>NIM (%)</b>	<b>3.44</b>	<b>4.30</b>	<b>3.40</b>	<b>-86 bps</b>	<b>4 bps</b>
Non-Interest Income	1,81,663	87,312	1,11,370	108.1	63.1
<b>Operating Income</b>	<b>4,72,431</b>	<b>3,20,830</b>	<b>3,96,084</b>	<b>47.3</b>	<b>19.3</b>
Staff Cost	69,362	43,621	53,518	59.0	29.6
Other Op Exp	1,10,326	91,001	1,06,093	21.2	4.0
Total Operating Expenses	1,79,688	1,34,621	1,59,611	33.5	12.6
<i>Cost to Income (%)</i>	<i>38.0</i>	<i>42.0</i>	<i>40.3</i>	<i>-393 bps</i>	<i>-226 bps</i>
<b>Operating Profit</b>	<b>2,92,742</b>	<b>1,86,209</b>	<b>2,36,473</b>	<b>57.2</b>	<b>23.8</b>
Provisions	1,35,116	26,854	42,166	403.2	220.4
<b>PBT</b>	<b>1,57,626</b>	<b>1,59,355</b>	<b>1,94,307</b>	<b>-1.1</b>	<b>-18.9</b>
Tax	-7,493	38,881	30,581	-119.3	-124.5
<i>-effective tax rate</i>	<i>-4.8</i>	<i>24.4</i>	<i>15.7</i>	<i>-2915 bps</i>	<i>-2049 bps</i>
<b>PAT</b>	<b>1,65,119</b>	<b>1,20,475</b>	<b>1,63,725</b>	<b>37.1</b>	<b>0.9</b>
EPS (Rs)	21.7	21.6	21.6	0.7	0.8
BV (Rs)	579.5	502.2	556.2	15.4	4.2
Deposits	2,37,97,863	1,88,33,947	2,21,39,770	26.4	7.5
Advances	2,48,48,615	1,60,05,859	2,44,60,757	55.2	1.6

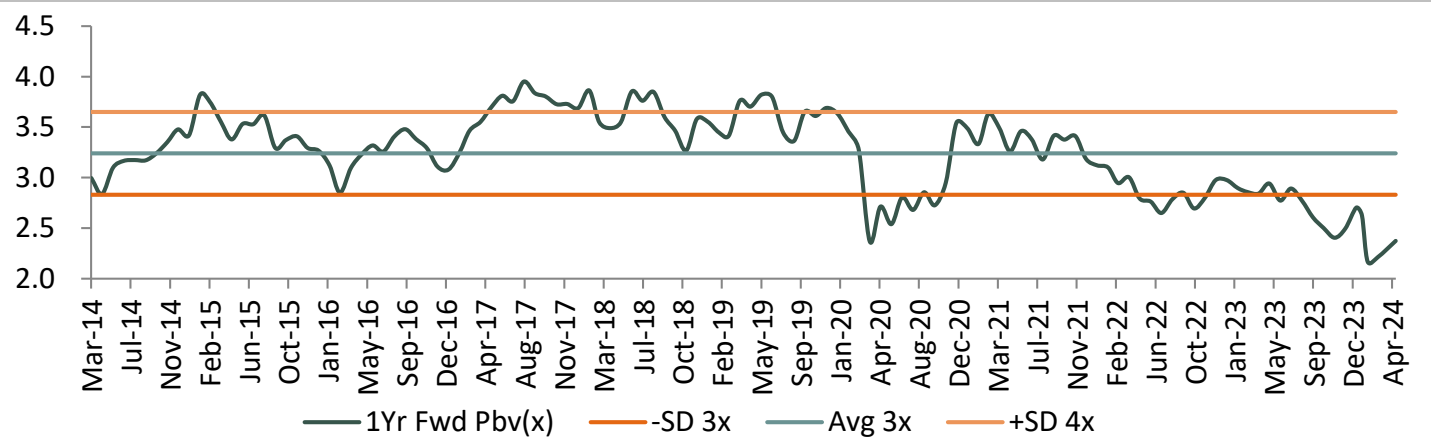
Source: Company; IDBI Capital Research

Exhibit 2: One-year forward P/ABV (FY14-19)



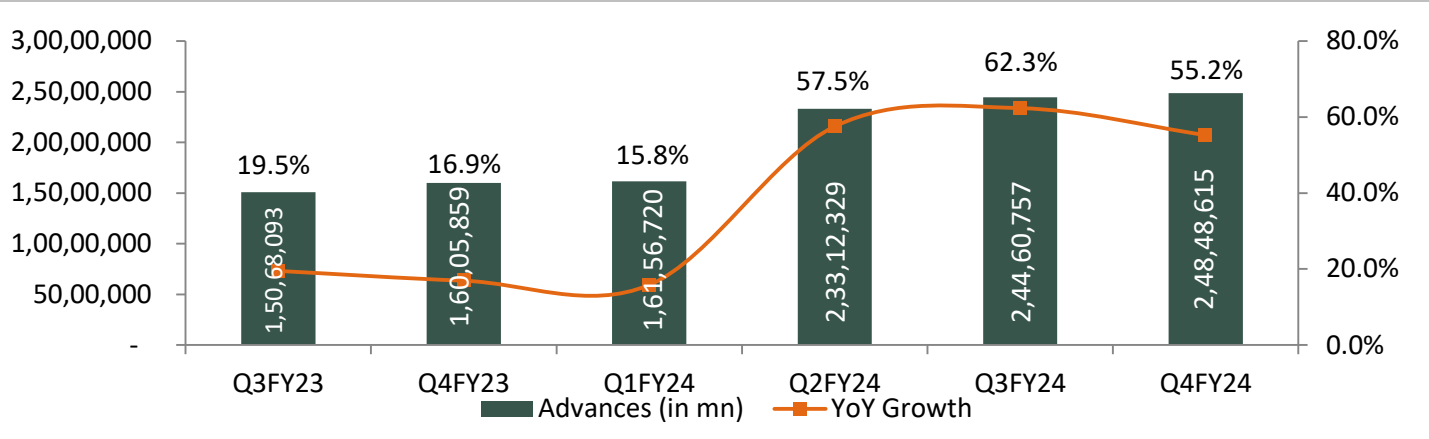
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-25)



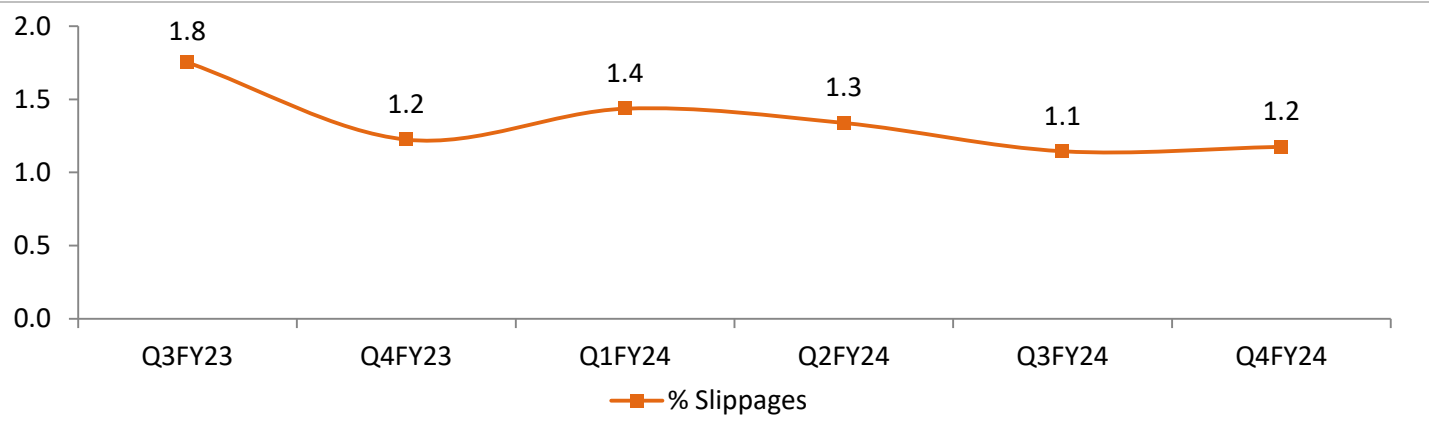
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth continued albeit at lower pace during the quarter



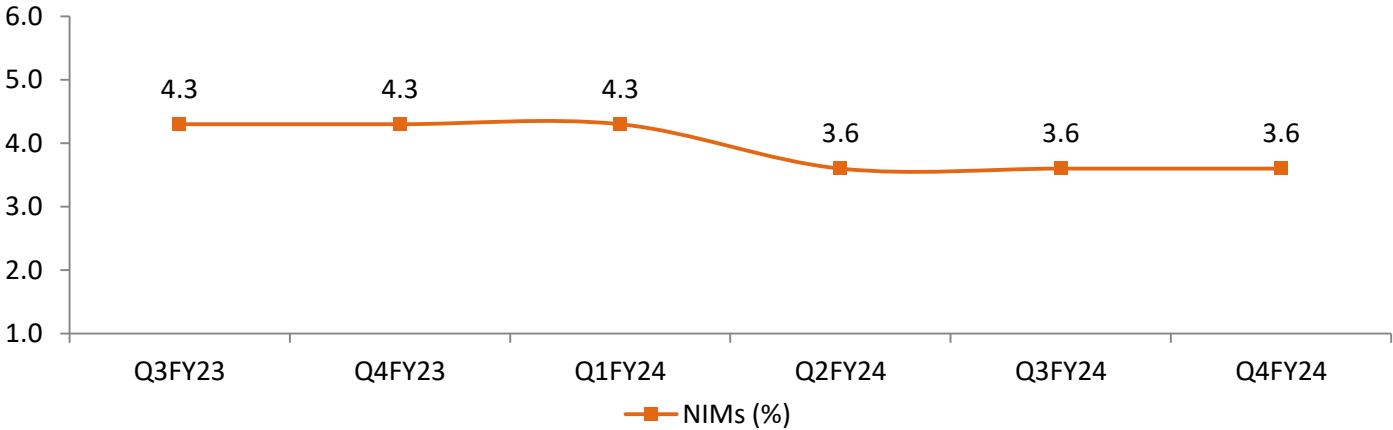
Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio declined QoQ



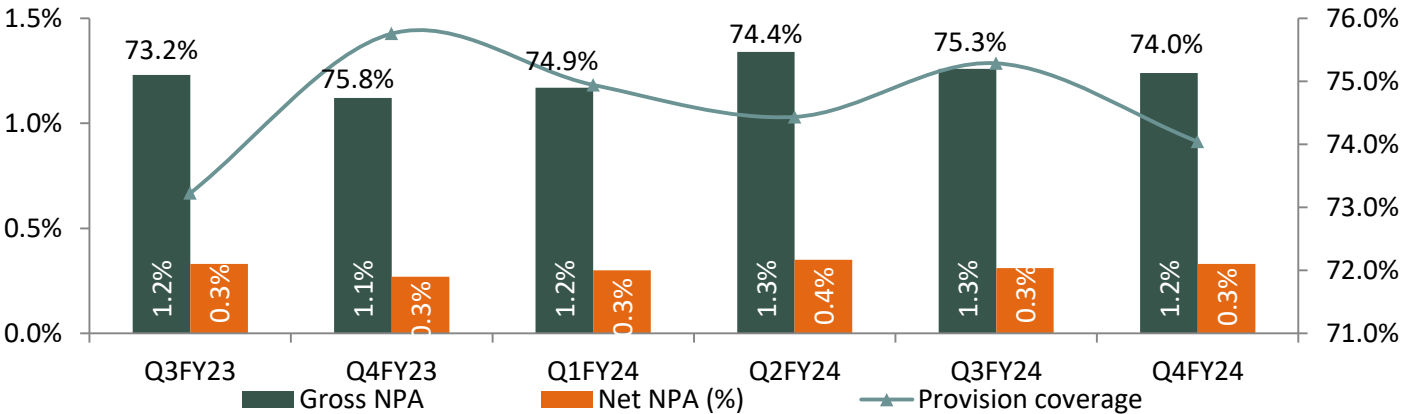
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins on Interest earning assets remained stable sequentially



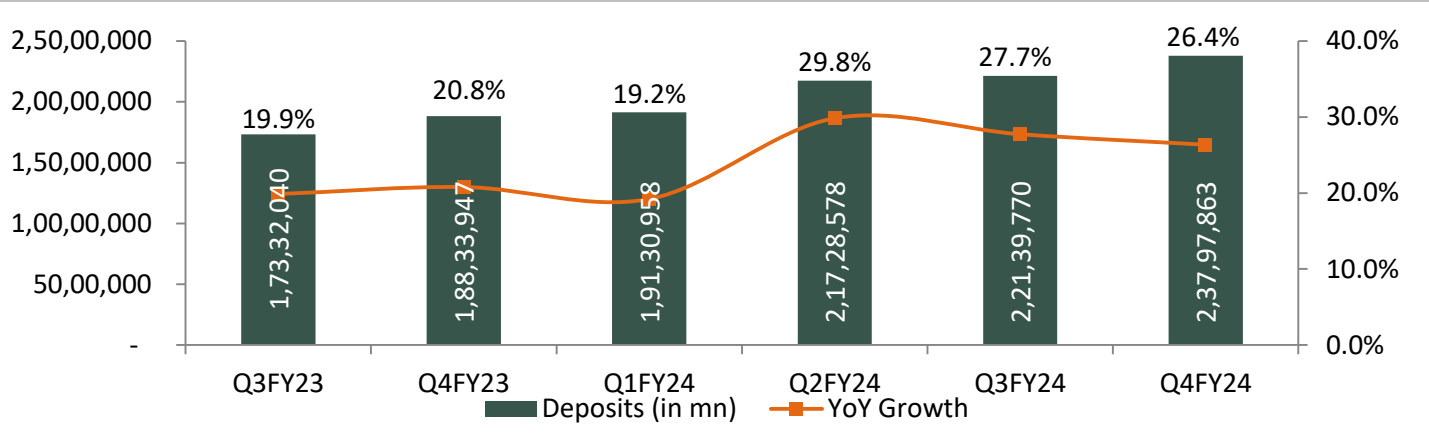
Source: Company; IDBI Capital Research

Exhibit 7: Asset Quality improved marginally on a sequential basis



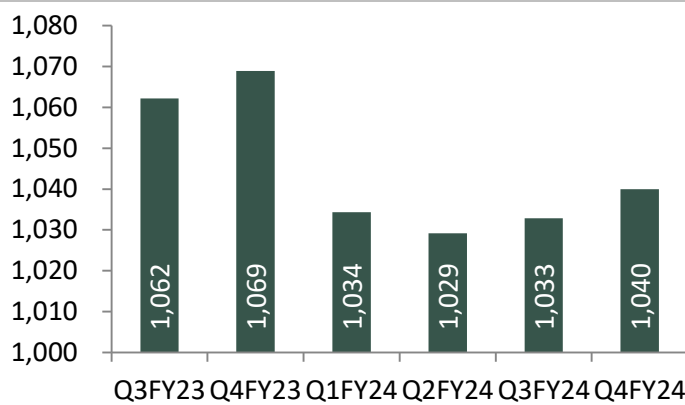
Source: Company; IDBI Capital Research

Exhibit 8: Deposits growth momentum improved on a sequential basis



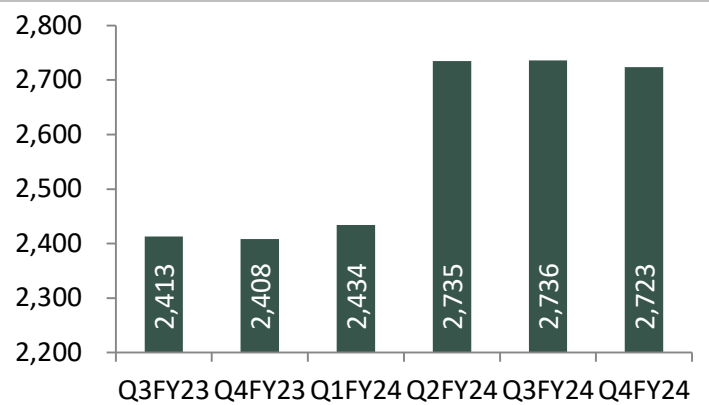
Source: Company; IDBI Capital Research

Exhibit 9: CASA per branch (In Mn) improved marginally on a QoQ basis



Source: Company; IDBI Capital Research

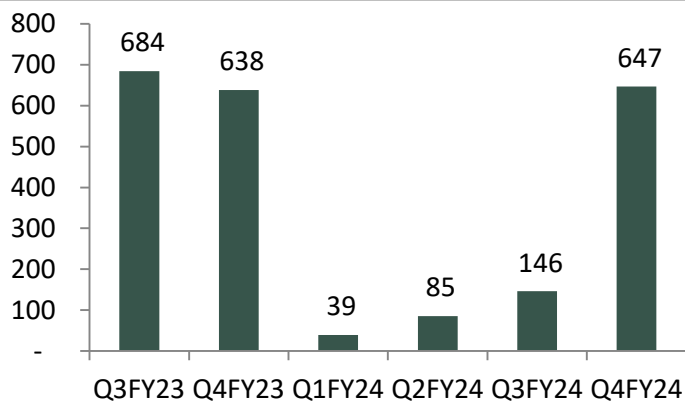
Exhibit 10: Deposit per branch (In Mn) declined marginally on a QoQ basis



Source: Company; IDBI Capital Research

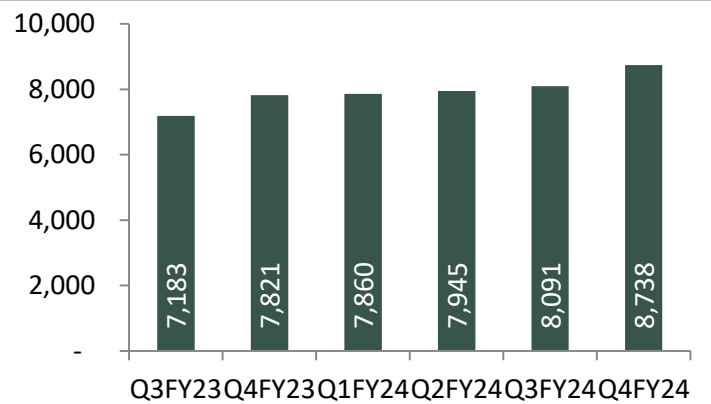


**Exhibit 11: Branch addition lower than guided mark of 1000 branches**



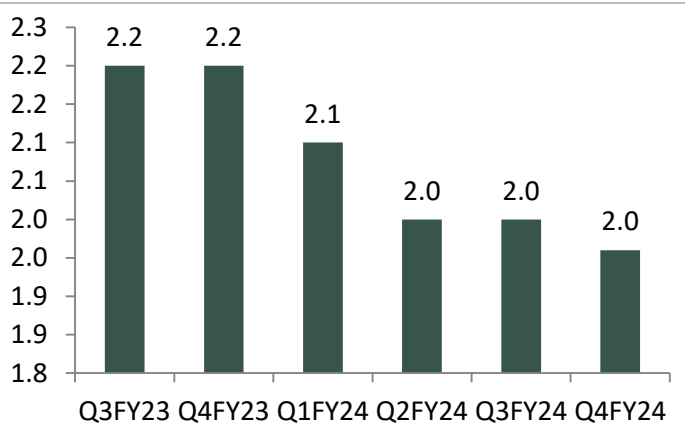
Source: Company; IDBI Capital Research

**Exhibit 12: Branch addition to further strengthen presence across key geographies**



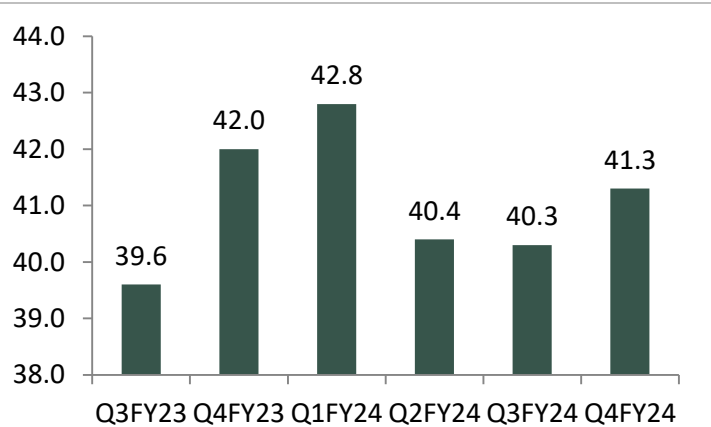
Source: Company; IDBI Capital Research

**Exhibit 13: RoA to remain in the range of 1.9-2.1%**



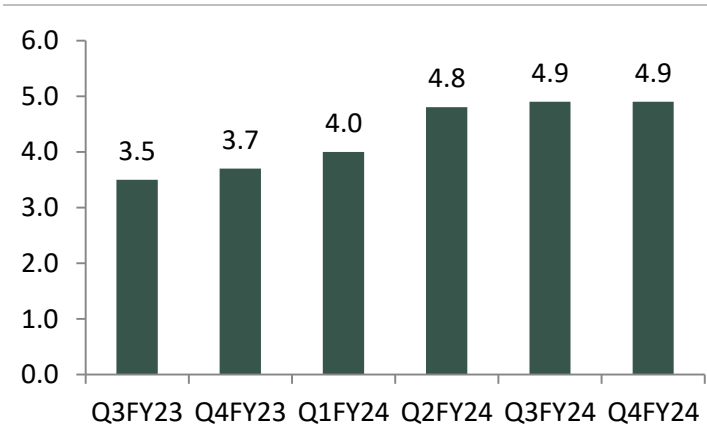
Source: Company; IDBI Capital Research

**Exhibit 14: Cost to Income Ratio increased on a QoQ basis**



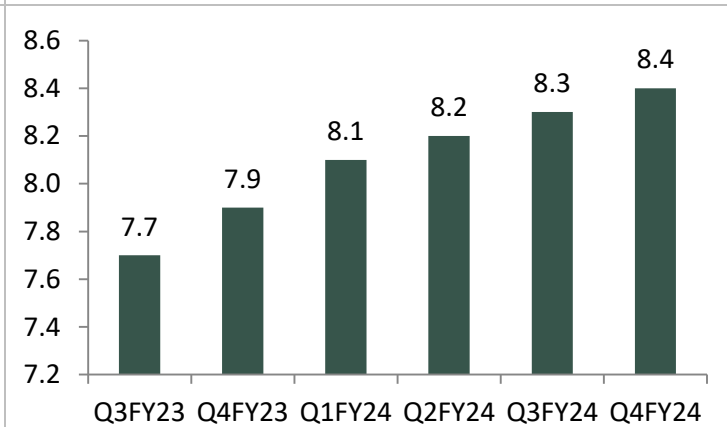
Source: Company; IDBI Capital Research

Exhibit 15: Cost of Funds remained stable sequentially



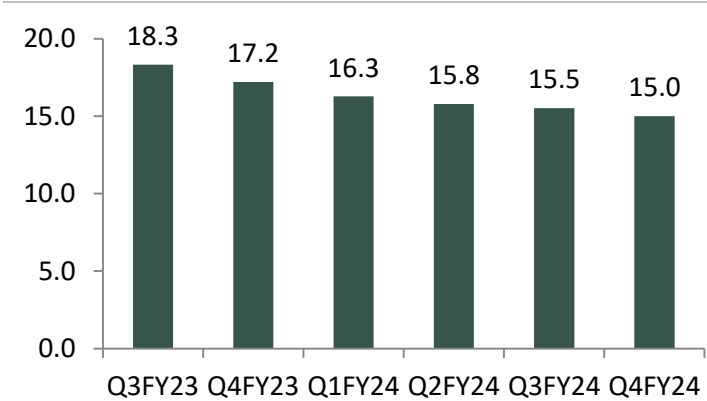
Source: Company; IDBI Capital Research

Exhibit 16: Yield on Advance continued to improve sequentially



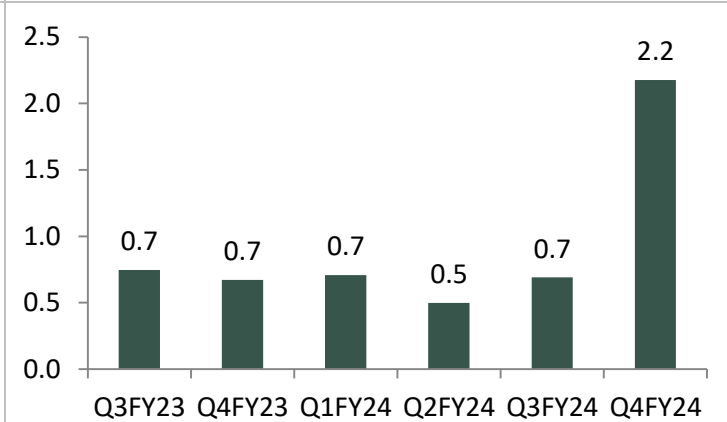
Source: Company; IDBI Capital Research

Exhibit 17: Return on Equity remained stable during the qtr

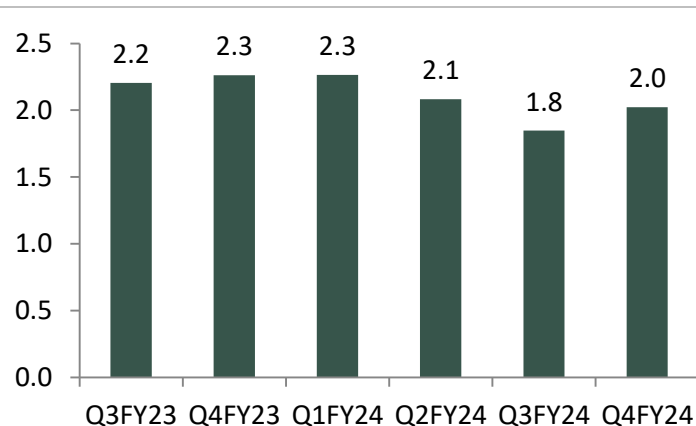


Source: Company; IDBI Capital Research

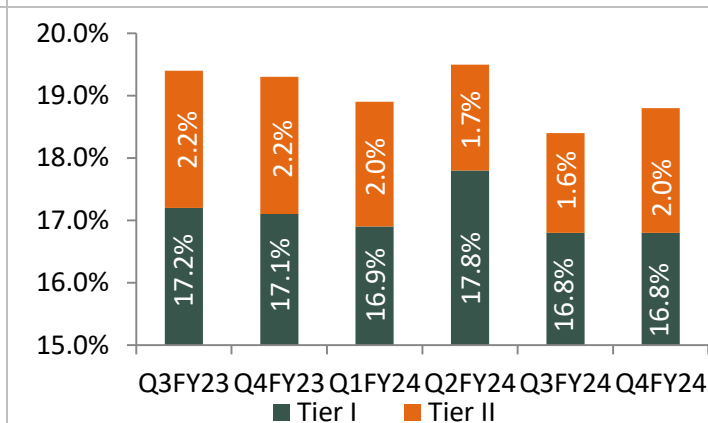
Exhibit 18: Credit Cost (annualized) increased QoQ



Source: Company; IDBI Capital Research

**Exhibit 19: Cost to Assets increased QoQ**

Source: Company; IDBI Capital Research

**Exhibit 20: CAR continues to remain strong**

Source: Company; IDBI Capital Research

**Exhibit 21: Composition of Gross Advances (Product Wise)**

Product Wise Advances (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
<b>Retail Asset</b>	<b>1,36,63,000</b>	<b>63,45,780</b>	<b>1,33,84,000</b>	<b>115.3</b>	<b>2.1</b>
Personal Loans	18,46,000	17,16,760	18,15,000	7.5	1.7
Auto Loans	13,11,000	11,74,290	12,80,000	11.6	2.4
Home Loans	77,28,000	10,20,670	74,32,000	657.1	4.0
Payment Products	10,02,000	8,61,040	9,71,000	16.4	3.2
Loan Against Property	8,07,000	7,67,730	9,89,000	5.1	(18.4)
Two Wheelers	1,18,000	99,330	1,13,000	18.8	4.4
Gold Loans	1,38,000	1,08,420	1,31,000	27.3	5.3
Other Retail Loans	7,13,000	5,97,540	6,53,000	19.3	9.2
<b>Commercial &amp; Rural Banking</b>	<b>67,59,000</b>	<b>54,74,330</b>	<b>65,94,000</b>	<b>23.5</b>	<b>2.5</b>
<b>Agriculture</b>	<b>10,53,000</b>	<b>8,17,190</b>	<b>9,30,000</b>	<b>28.9</b>	<b>13.2</b>
<b>Corporate &amp; Other Wholesale</b>	<b>36,04,000</b>	<b>35,04,990</b>	<b>37,85,000</b>	<b>2.8</b>	<b>(4.8)</b>
<b>Total Advances</b>	<b>2,50,79,000</b>	<b>1,61,42,290</b>	<b>2,46,93,000</b>	<b>55.4</b>	<b>1.6</b>

Source: Company; IDBI Capital Research

**Exhibit 22: Changes in Product Mix (Advances)**

Product Wise Advances Mix(In %)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
<b>Retail Asset</b>	<b>54.5</b>	<b>39.3</b>	<b>54.2</b>	<b>1517 bps</b>	<b>28 bps</b>
Personal Loans	7.4	10.6	7.4	-327 bps	1 bps
Auto Loans	5.2	7.3	5.2	-205 bps	4 bps
Home Loans	30.8	6.3	30.1	2449 bps	72 bps
Payment Products	4.0	5.3	3.9	-134 bps	6 bps
Loan Against Property	3.2	4.8	4.0	-154 bps	-79 bps
Two Wheelers	0.5	0.6	0.5	-14 bps	1 bps
Gold Loans	0.6	0.7	0.5	-12 bps	2 bps
Other Retail Loans	2.8	3.7	2.6	-86 bps	20 bps
<b>Commercial &amp; Rural Banking</b>	<b>27.0</b>	<b>33.9</b>	<b>26.7</b>	<b>-696 bps</b>	<b>25 bps</b>
<b>Agriculture</b>	<b>4.2</b>	<b>5.1</b>	<b>3.8</b>	<b>-86 bps</b>	<b>43 bps</b>
<b>Corporate &amp; Other Wholesale</b>	<b>14.4</b>	<b>21.7</b>	<b>15.3</b>	<b>-734 bps</b>	<b>-96 bps</b>
<b>Total Advances</b>	<b>100</b>	<b>100</b>	<b>100</b>		

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E*	FY26E*
<b>Net interest income</b>	<b>6,48,796</b>	<b>7,20,096</b>	<b>8,68,422</b>	<b>10,85,325</b>	<b>12,57,496</b>	<b>15,02,072</b>
<i>Change (yoy, %)</i>	15%	11%	21%	25%	16%	19%
Fees	2,12,894	2,71,566	3,22,524	3,85,150	4,00,684	4,60,787
Other Income	39,154	23,533	-10,375	1,07,260	97,310	1,10,202
Net Revenue	9,00,844	10,15,195	11,80,570	15,77,735	17,55,490	20,73,061
Operating expenses	3,27,226	3,74,422	4,76,521	6,33,860	6,99,378	7,80,233
Employee expenses	1,03,648	1,20,317	1,55,124	2,22,402	1,91,846	1,96,571
Other expenses	2,23,578	2,54,105	3,21,397	4,11,458	5,07,533	5,83,663
<b>Pre-Provision Profit</b>	<b>5,73,618</b>	<b>6,40,773</b>	<b>7,04,050</b>	<b>9,43,874</b>	<b>10,56,112</b>	<b>12,92,827</b>
<i>Change (yoy, %)</i>	18%	12%	10%	34%	12%	22%
Provision	1,57,028	1,50,618	1,19,197	2,34,921	1,78,009	2,04,711
PBT	4,16,590	4,90,155	5,84,853	7,08,953	8,78,103	10,88,117
Taxes	1,05,425	1,20,541	1,43,766	1,00,830	2,12,237	2,62,998
<i>Effective tax rate (%)</i>	25%	25%	25%	14%	24%	24%
<b>Net profit</b>	<b>3,11,165</b>	<b>3,69,614</b>	<b>4,41,087</b>	<b>6,08,123</b>	<b>6,65,865</b>	<b>8,25,119</b>
<i>Change (yoy, %)</i>	19%	19%	19%	38%	9%	24%
EPS	56.4	66.7	79.1	80.0	87.6	108.6
ROE	16.6	16.7	17.0	16.9	14.1	15.2
ROA	1.9	1.9	1.9	2.0	1.7	1.9

Note: \* Merged figures

## Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E*	FY26E*
Capital	5,513	5,546	5,580	7,597	7,597	7,597
Reserves	20,31,696	23,95,384	27,96,410	43,94,861	50,24,802	58,13,997
<b>Networth</b>	<b>20,37,209</b>	<b>24,00,929</b>	<b>28,01,990</b>	<b>44,02,458</b>	<b>50,32,399</b>	<b>58,21,594</b>
<b>Deposits</b>	<b>1,33,50,602</b>	<b>1,55,92,174</b>	<b>1,88,33,946</b>	<b>2,37,97,863</b>	<b>2,78,97,884</b>	<b>3,26,12,909</b>
Current deposits	21,21,821	23,93,106	27,34,961	31,00,000	41,84,683	48,91,936
Saving deposits	40,35,001	51,17,385	56,24,927	59,87,000	69,74,471	81,53,227
Term deposit	71,93,780	80,81,683	1,04,74,058	1,47,10,863	1,67,38,731	1,95,67,745
Borrowings	13,54,873	18,48,172	20,67,656	66,21,531	69,15,057	72,04,160
Other liabilities	7,26,021	8,44,075	9,57,222	13,54,379	13,82,371	13,42,956
<b>Total Liab. &amp; Equity</b>	<b>1,74,68,705</b>	<b>2,06,85,351</b>	<b>2,46,60,815</b>	<b>3,61,76,231</b>	<b>4,12,27,712</b>	<b>4,69,81,619</b>
Cash	11,94,705	15,23,269	19,37,651	21,91,474	24,87,559	27,83,320
Advances	1,13,28,366	1,36,88,209	1,60,05,859	2,48,48,615	2,85,75,907	3,28,62,294
Investments	44,37,282	45,55,357	51,70,014	70,24,150	79,46,654	90,07,535
Fixed Assets	49,093	60,837	80,165	1,13,990	1,19,689	1,25,674
Other Assets	4,59,259	8,57,678	14,67,125	19,98,002	20,97,902	22,02,797
<b>Total assets</b>	<b>1,74,68,705</b>	<b>2,06,85,351</b>	<b>2,46,60,815</b>	<b>3,61,76,231</b>	<b>4,12,27,712</b>	<b>4,69,81,619</b>

Note: \* Merged figures

## Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E*	FY25E*	FY26E*
<b>Growth</b>						
Deposits	16.3	16.8	20.8	26.4	17.2	16.9
Advances	14.0	20.8	16.9	55.2	15.0	15.0
NII	15.5	11.0	20.6	25.0	15.9	19.4
Pre-Provision Profit	17.7	11.7	9.9	34.1	11.9	22.4
Net Profit	18.5	18.8	19.3	37.9	9.5	23.9
<b>Spreads</b>						
Yield on Assets	8.1	7.3	7.8	9.3	8.2	8.2
Cost of Funds	4.1	3.5	3.9	5.8	5.1	4.9
NIM	4.0	3.8	3.9	3.5	3.5	3.7
CASA	46.1	48.2	44.4	38.2	40.0	40.0
<b>Operating Efficiency</b>						
Cost-to-Income	36.3	36.9	40.4	40.2	39.8	37.6
Cost-to-Assets	2.0	2.0	2.1	2.1	1.8	1.8
<b>Asset Quality</b>						
GNPA	1.0	0.8	1.3	1.2	1.4	1.4
NNPA	0.3	0.2	0.4	0.3	0.3	0.3
Provision Coverage	72.7	72.7	71.5	82.4	77.9	79.7
Credit Cost	0.8	0.6	0.5	0.5	0.6	0.6
<b>Capital Adequacy</b>						
CAR	17.6	17.9	19.0	16.8	16.9	17.0
Tier I	18.8	18.9	21.2	18.4	18.3	18.3
<b>Valuation</b>						
EPS	56.4	66.7	79.1	80.0	87.6	108.6
ABV	363.9	427.6	489.4	585.1	667.0	769.7
P/E	27.1	23.0	19.4	19.1	17.5	14.1
P/ABV	4.2	3.6	3.1	2.6	2.3	2.0
ROE	16.6	16.7	17.0	16.9	14.1	15.2
ROA	1.9	1.9	1.9	2.0	1.7	1.9
RORWA	2.8	2.7	2.1	2.5	2.4	2.6

Source: Company; IDBI Capital Research; Note: \* Merged figures



# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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