

Deposit Growth Becomes Priority, Credit Growth to Follow!

Est. Vs. Actual for Q4FY24: NII – **INLINE**; PPOP – **BEAT**; PAT – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E: NII: -3.4%/-4.0% PPOP: -5.5%/-6.0%; PAT: -3.9%/-4.3%

Recommendation Rationale

- **Medium to long-term key focus areas identified** – The management has identified levers to steer growth for HDFCB over the medium-long term. These include (a) **Improving profitability metrics – RoA and EPS**, (b) **Ensuring sustainable deposit growth alongside delivering strong growth in the retail deposit franchise**, (c) **Investing in distribution, workforce and technology/digital infrastructure** and (d) **Unabated focus on quality with a balance between margins and risk**. Given HDFCB's track record of delivering a strong and consistent performance across cycles, we remain confident in the bank's ability to deliver robust performance over the medium term. We pen down Advances/Deposits/Earnings growth of 15/18/18% CAGR over FY24-26E, with an improvement in RoA to ~1.9% by FY26E from 1.6% in FY24E.
- **Deposit growth takes precedence; LDR to improve gradually** – HDFCB's focus remains on gaining incremental market share in terms of deposits while keeping CoF range-bound. The bank expects to leverage the strength of its franchise, ensure enhanced customer engagement, elevate 'service-first' culture, and ensure increasing customer wallet share in order to ensure sustainable retail-franchise-led deposit growth. Despite its continued focus on granular deposits, HDFCB will not want to be an outlier in terms of deposit pricing. As HDFC Ltd's borrowings get replaced, HDFCB is likely to have substantial liquidity, which it would deploy in pursuing growth. Till then the bank will look to pursue credit growth where the risk-reward ratio is favourable. Thus, with deposit growth likely to outpace credit growth, we expect LDR to improve over the medium term.
- **NIM improvement visible, albeit gradual** – A shift in the portfolio mix towards retail assets along with replacement of HDFC Ltd's higher-cost borrowings with deposits are key levers for margin improvement. Some of HDFC Ltd's high-cost borrowings will begin maturing in FY25. Near-term constraints w.r.t higher CoF will continue to limit NIM expansion, thereby keeping margins largely steady at current levels (~3.6% of Interest earning assets/~3.4% Core NIMs in Q4FY24).

Sector Outlook: Positive

Company Outlook: While the bank witnessed improved deposit growth as it exit FY24, credit growth was slower as focus shifted towards deposit accretion. Hereon, continued momentum on deposit mobilisation and improvement trajectory of NIMs/RoA would be key re-rating levers for the stock. We believe current valuations are attractive, given expectations of improved NIMs and RoA.

Current Valuation: 2.5x Sep'25E ABV; **Earlier Valuation:** 2.75x Sep'25E ABV

Current TP: Rs 1,885/share; **Earlier TP:** Rs 1,975/share

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance

- HDFCB's advances grew by 55/2% YoY/QoQ. Deposits growth improved to 26/7% YoY/QoQ, with healthy growth in both CASA and TDs. **NII grew by 25/2% YoY/QoQ. Core NIMs (reported) improved marginally by 4bps QoQ** and stood at 3.44% vs 3.4% in Q3FY24.
- **Non-interest income grew by 108/63% YoY/QoQ**, aided by stake sale in Credila (gain of Rs 73.4 Bn). Fee income (1.3% of loans) growth was healthy at 21/15% YoY/QoQ. Treasury gain was ~Rs 2.5 Bn. Opex was higher at 33/13% YoY/QoQ, driven by higher employee expenses (owing to one-time ex-gratia provision). The C-I Ratio stood at 38% vs. 42/40.3% YoY/QoQ. PPOP grew by 57/24% YoY/QoQ. The bank reported **higher-than-expected Provisions as it decided to build its floating provisions. This provision of Rs 109 Bn is not towards any specific portfolio, but as a countercyclical buffer to make the balance sheet resilient**. PAT grew by 37/1% YoY/QoQ.
- Asset quality continued to remain stable with GNPA/NNPA at 1.24/0.33% vs. 1.26/0.31% QoQ.

Outlook

HDFCB remains focused on protecting margins and improving profitability rather than pursuing growth. We trim our NII/Earnings estimates by 3-4%/4-5% respectively to factor in lower credit growth and a slower-than-expected margin recovery.

Valuation & Recommendation

We value the core book at 2.5x Sep'25E ABV vs. its current valuation of 2.3x Sep'25E ABV and assign a value of Rs 199/share to subsidiaries of the merged entity, thereby arriving at a target price of Rs 1,885/share. The TP implies an upside of 23% from the CMP.

Key Financials (Standalone)

(Rs Bn)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	290.8	+2.1	+24.5	293.6	-0.9
PPOP	292.7	+23.8	+57.2	243.9	+20.0
Net Profit	165.1	+0.9	+37.1	157.6	+4.8
NNPA (%)	0.3	+2 bps	+6 bps	0.3	+2 bps
RoA (%)	2.0	-4 bps	-6 bps	1.9	+8 bps

Source: Company, Axis Research *(YoY data not comparable)

(CMP as of 19 Apr, 2024)

CMP (Rs)	1,531
Upside /Downside (%)	23%
High/Low (Rs)	1,758/1,461
Market cap (Cr)	12,74,740
Avg. daily vol. (6m) Shrs.	2,16,61,292
No. of shares (Cr)	759.3

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	0.0	0.0	0.0
FII	52.1	52.3	47.8
MFs / UTI	19.7	19.5	23.2
Others	28.2	28.2	29.0

Financial & Valuations

Y/E Mar (Rs Bn)	FY24P	FY25E	FY26E
NII	1,085	1,317	1,567
PPOP	944	1,097	1,316
Net Profit	608	706	853
EPS (Rs)	80.0	92.9	112.2
ABV (Rs)	568.9	633.9	716.4
P/ABV (x)	2.7	2.4	2.1
RoA (%)	1.6	1.8	1.9
NNPA (%)	0.3	0.3	0.3

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
NII	-3.4	-4.0
PPOP	-5.5	-6.0
PAT	-3.9	-4.3

ESG disclosure Score**

Environmental Disclosure	46.6
Social Disclosure Score	54.1
Governance Disclosure Score	92.4
Total ESG Disclosure Score	64.4
Sector Average	38.8

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Risks to our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum owing to the bank's inability to ensure deposit mobilization which could potentially derail earnings momentum for the bank.
- Slower substitution of higher-cost debt with lower cost deposits could continue to hurt margins

Valuation – SOTP Calculation

	Stake Held (%)	Valuation Methodology	Value Per Share
HDFC Bank - Parent		2.5x Sep'25E Adj. BV	1,687
HDB Financial Services	94.6	2.4x Sep'25E BV	56
HDFC Securities	95.1	14x Sep'25E EPS	28
HDFC Life	50.4	2.6x Sep'25E EV	95
HDFC AMC	52.6	36x Sep'25E EPS	61
HDFC Ergo	50.5	24x Sep'25E EPS	9
Total Subsidiary Value			249
Less: 20% holding discount			50
Net Value of Sub.			199
Target Price			1,885
CMP			1,531
Potential Upside			23%

Source: Axis Securities

Change in Estimates

Q4FY24	Revised		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
NII	1,317	1,566	1,363	1,632	-3.4	-4.0
PBP	1,097	1,306	1,160	1,389	-5.5	-6.0
PAT	706	845	735	884	-3.9	-4.3

Source: Axis Securities

Results Review

Rs Bn	Q4FY24	Q4FY23	% YoY	Q3FY24	% QoQ	FY24	FY23	% YoY
Net Interest Income	291	234	24.5	285	2.1	1085	868	25.0
Non-Interest Income	182	87	108.1	111	63.1	492	312	57.7
Operating expenses	180	135	33.5	160	12.6	634	477	33.0
-- Staff Cost	69	44	59.0	54	29.6	222	155	43.4
Pre provision profits	293	186	57.2	236	23.8	944	704	34.1
Provisions and contingencies	135	27	403.2	42	220.4	235	119	97.1
PBT	158	159	-1.1	194	-18.9	709	585	21.2
Provision for Tax	-7	39	-119.3	31	-124.5	101	144	-29.9
PAT	165	120	37.1	164	0.9	608	441	37.9
Deposits	23,800	18,834	26.4	22,140	7.5	23,800	18,834	26.4
CASA Deposits	9,090	8,362	8.7	8,357	8.8	9,090	8,362	8.7
CASA Ratio %	38.2	44.4	-620bps	37.7	45bps	38.2	44.4	-620bps
Advances	24,849	16,006	55.2	24,461	1.6	24,849	16,006	55.2
Retail	12,612	6,172	104.3	12,188	3.5	12,612	6,172	104.3
CRB	7,003	5,648	24.0	6,800	3.0	7,003	5,648	24.0
Agri	1,053	817	28.9	930	13.2	1,053	817	28.9
Corporate	4,268	4,097	4.2	4,363	-2.2	4,268	4,097	4.2
C/D Ratio	104.4	85.0	1942bps	110.5	-608bps	104.4	85.0	1942bps
NIMs - Reported (%)	3.4	4.1	-66bps	3.4	4bps	3.7	4.1	-42bps
Cost-Income ratio (%)	38.0	42.0	-393bps	40.3	-226bps	40.4	40.3	5bps
Gross NPA (%)	1.2	1.1	12bps	1.3	-2bps	1.2	1.1	12bps
Net NPA (%)	0.3	0.3	6bps	0.3	2bps	0.3	0.3	6bps
PCR (%)	74.0	75.8		75.3		74.0	75.8	

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Bn)

Y/E March	FY23	FY24P	FY25E	FY26E
Net Interest Income	868	1,085	1,317	1,567
Other Income	312	492	500	575
Total Income	1,181	1,578	1,816	2,141
Total Operating Exp	477	634	720	826
PPOP	704	944	1,097	1,316
Provisions & Contingencies	119	235	161	185
PBT	585	709	936	1,131
Provision for Tax	144	101	230	278
PAT	441	608	706	853

Source: Company, Axis Securities **FY24 onwards are post-merger numbers

Balance Sheet

(Rs Bn)

Y/E March	FY23	FY24P	FY25E	FY26E
SOURCES OF FUNDS				
Share Capital	6	8	8	8
Reserves	2,786	4,368	4,898	5,538
Shareholder's Funds	2,791	4,376	4,906	5,545
Total Deposits	18,834	23,798	28,099	32,927
Borrowings	2,068	6,622	7,148	7,871
Other Liabilities & Provisions	957	1,354	1,562	1,803
Total Liabilities	24,650	36,150	41,715	48,147
APPLICATION OF FUNDS				
Cash & Bank Balance	1,938	2,191	2,391	2,719
Investments	5,170	7,024	8,294	9,719
Advances	16,006	24,849	28,511	32,825
Fixed & Other Assets	1,547	2,112	2,519	2,883
Total Assets	24,661	36,176	41,715	48,147

Source: Company, Axis Securities **FY24 onwards are post-merger numbers

Ratio Analysis
(%)

Y/E March	FY23	FY24P	FY25E	FY26E
VALUATION RATIOS				
EPS	79.1	80.0	92.9	112.2
Earnings Growth (%)	18.6	1.3	16.1	20.8
BVPS	502.2	579.5	645.7	730.0
Adj. BVPS	487.5	568.9	633.9	716.4
ROAA (%)	1.9	1.6	1.8	1.9
ROAE (%)	17.0	12.5	15.2	16.3
P/E (x)	19.4	19.1	16.5	13.6
P/ABV (x)	3.1	2.7	2.4	2.1
Dividend Per Share	19.0	19.5	23.2	28.0
Dividend Yield (%)	1.2	1.3	1.5	1.8
PROFITABILITY & OPERATING EFFICIENCY				
NIM (%)	4.1	3.7	3.6	3.7
Cost/Avg. Asset Ratio (%)	2.1	1.9	1.8	1.8
Cost-Income Ratio (%)	40.4	40.2	39.6	38.6
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	16.9	55.2	14.7	15.1
Deposit Growth (%)	20.8	26.4	18.1	17.2
Equity/Assets (%)	85.0	104.4	101.5	99.7
Equity/Advances (%)	11.4	12.2	11.8	11.5
CAR (%)	19.3	18.8	18.0	17.5
Tier 1 CAR (%)	17.1	16.3	15.7	15.3
ASSET QUALITY				
Gross NPLs (Rs Bn)	180.2	311.7	358.4	412.0
Net NPLs (Rs Bn)	43.7	80.9	89.7	103.2
Gross NPLs (%)	1.1	1.3	1.3	1.3
Net NPLs (%)	0.3	0.3	0.3	0.3
Coverage Ratio (%)	75.8	74.0	75.0	75.0
Provisions/Avg. Adv(%)	0.8	1.2	0.6	0.6
ROAA TREE (%)				
Net Interest Income	3.8	3.2	3.4	3.5
Non-Interest Income	1.4	1.4	1.3	1.3
Operating Cost	2.1	1.9	1.8	1.8
Provisions	0.5	0.7	0.4	0.4
ROAA	1.9	1.6	1.8	1.9
Leverage (x)	8.7	8.0	8.4	8.6
ROAE	16.8	12.5	15.2	16.3

Source: Company, Axis Securities **FY24 onwards are post-merger numbers

HDFC Bank Price Chart and Recommendation History



Date	Reco.	TP	Research
17-Jan-22	BUY	1,985	Result Update
05-Apr-22	BUY	1,985	Company Update
18-Apr-22	BUY	1,960	Result Update
18-Jul-22	BUY	1,840	Result Update
25-Jul-22	BUY	1,840	AAA
17-Oct-22	BUY	1,800	Result Update
16-Jan-23	BUY	1,860	Result Update
17-Apr-23	BUY	1,975	Result Update
24-Apr-23	BUY	1,975	Result Update
18-Jul-23	BUY	2,050	Result Update
17-Oct-23	BUY	1,925	Result Update
17-Jan-24	BUY	1,975	Result Update
22-Apr-24	BUY	1,885	Result Update

Source: Axis Securities

About the analyst



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