

BFSI | Q4FY24 Result Update

In line quarter; Building in resilience

- HDFCB results were in-line with NII and PPOP growth at 1.5%/20% YoY on merged basis and stable NIM QoQ at 3.4%. Operating metrics benefitted from one-time gain through Credila stake sale at Rs73bn. Benefits of tax reversal (Rs44bn) and stake sale gains were nullified by Rs109bn of floating provisions.
- Management remains confident of continued market share gains in deposits (+7.5% QoQ) and guides stable NIM in the interim. Key lever for any NIM expansion would be loan mix change. The bank let go both loans and deposits in recent quarters due to irrational pricing.
- We build in earnings CAGR of 18% over FY25-26E and tweak our earnings estimates, maintaining 'BUY' rating with unrevised TP of Rs2000. We value standalone bank at 2.5x FY26E PBV and add value of subsidiaries.

Robust growth from retail and CRB book; Margins stable

Even as loan growth was muted at 1.6% QoQ/13% YoY (merged basis), retail and CRB book grew at a healthy 4% QoQ each, with de-growth in corporate book (-2.2% QoQ) impacting overall growth. Rise in retail share in loan mix remains key to NIM trajectory as levers from declining CoF (repricing of e-HDFC borrowings) will be offset by moderation in loan-deposit ratio to optimal levels (85-89%). We factor in loan growth of 14% YoY and NIM of 3.6-3.7% over FY25-26E.

Credit costs better than expected; floating provisions beefed up

Credit cost at 42 bps (ex of floating prov) continues to surprise on the positive. With benefits of tax reversal and Credila stake sale gains, the bank made Rs109bn of floating provisions in Q4, resulting in ~105 bps of standard buffers (including contingent and floating) vs ~65 bps last quarter, amongst the highest in industry. We build in credit costs of 50-60bps over FY25-26E.

PSL targets being met

The bank achieved 52% PSL in FY24 vs 45% in FY23 at an aggregate level, largely through organic means. The small and marginal farmer sub-target is aimed at achieving organically over time, while weaker section targets will be filled through inorganic means. Had 117k small and marginal farmers a few years earlier, which now stands at 3.5mn.

Q4FY24 Result (Rs Mn)

Particulars*	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net interest income	290,768	233,518	24.5	284,713	2.1
Other income	181,663	87,312	108.1	111,370	63.1
Total Net Income	472,431	320,830	47.3	396,084	19.3
Operating expenses	179,688	134,621	33.5	159,611	12.6
Pre-provision profits	292,742	186,209	57.2	236,473	23.8
Provisions	135,116	26,854	403.2	42,166	220.4
Tax expense	(7,493)	38,881	NA	30,581	NA
Reported Net Profit	165,118	120,475	37.1	163,725	0.9
			(bps)		(bps)
Advances Growth (%)	12.5	16.9	(444)	16.7	(422)
NIM (%)	3.4	4.1	(70)	3.4	0
RoA	1.9	2.1	(26)	1.9	(4)
RoE	15.4	17.6	(223)	15.8	(47)
Gross NPA (%)	1.2	1.1	12	1.3	(2)

*YoY not comparable due to merger

CMP	Rs 1,531
Target / Upside	Rs 2,000 / 31%
NIFTY	22,147

Scrip Details

Equity / FV	Rs 7,597mn / Rs 1		
Market Cap	Rs 11,633bn		
	USD 140.4bn		
52-week High/Low	Rs 1,758/ 1,364		
Avg. Volume (no)	23,811,100		
Bloom Code	HDFCB IN		
Price Performance	1M	3M	12M
Absolute (%)	7	4	(8)
Rel to NIFTY (%)		2	(30)

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
MF/Banks/FIs	30.4	30.5	33.5
FIs	52.1	52.3	47.8
Public / Others	17.3	17.0	18.6

Valuation (x)

	FY24A	FY25E	FY26E
P/E	19.1	16.2	13.5
P/ABV	2.7	2.4	2.1
ROAA	1.8	1.9	2.0
ROAE	16.9	15.5	16.4

Estimates (Rs bn)

	FY24A	FY25E	FY26E
NII	1,085.3	1,302.4	1,529.9
PPOP	943.9	1,081.7	1,298.2
PAT	608.2	718.4	859.3
Adj BV (Rs)	565.4	633.5	717.5

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Risks to our view: Weaker than anticipated macro-economic trends could adversely impact growth and asset quality, lower than expected NIM and growth could hurt profitability metrics.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	290,768	281,594	3.3
Operating Profit	292,742	302,537	(3.2)
PAT	165,124	202,899	(18.6)

Source: Company, DART

Exhibit 2: Earnings Estimates

Particulars (Rs mn)	Previous		Revised		Change %	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Op Rev	1,829,373	2,154,983	1,790,076	2,096,684	(2.1)	(2.7)
PPOP	1,127,161	1,372,846	1,081,710	1,298,199	(4.0)	(5.4)
PAT	715,019	877,294	718,430	859,322	0.5	(2.0)

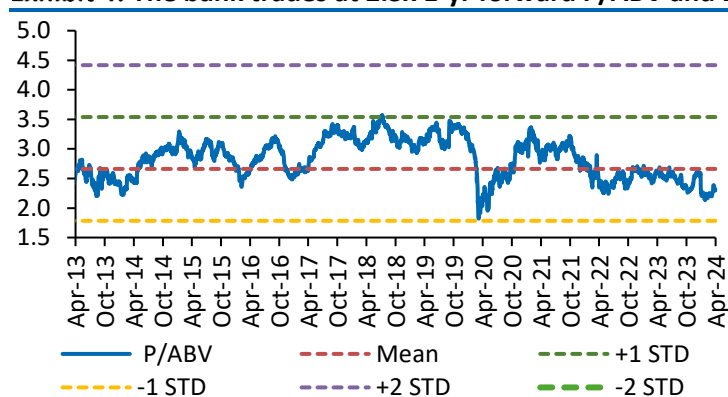
Source: Company, DART

Exhibit 3: SOTP Valuation

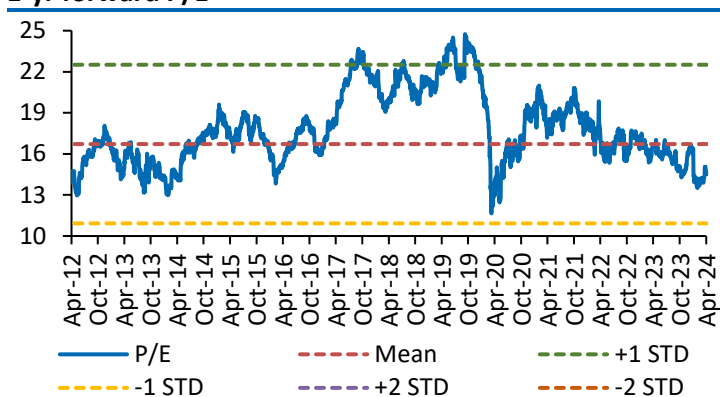
Particulars	Per Share Value(Rs)	Methodology
HFDC Bank*	1778	2.5x Mar-26E P/ABV
HDFC Life	95	2.4x EV
HDFC AMC	56	14% of AUM
HDFC ERGO	25	Based on HDFC bank's 50% stake
HDB Financial	55	2.5x P/ABV
HDFC Securities	30	20x P/E
Value of Subs. & Investments	261	
Holdco. Discount	15%	
Value of Bank	2000	

Source: Company, DART: *adjusted for investment in subsidiary

Exhibit 4: The bank trades at 2.3x 1-yr forward P/ABV and 15x 1-yr forward P/E



Source: Company, DART



Source: Company, DART

Earnings Call KTAs

- **CEO commentary:** Sustainability of retail deposit franchise and customer service focus is key to medium term RoAs. Operating leverage to be harnessed over a period of time. The bank typically slows down wherever it sees heightened competition. It continues to gain market share in deposits, which means the strategy will work. Incremental CD ratio is similar to historical levels.
- **Deposits traction:** Interest costs are similar to last quarter, as the bank maintained parity on rates. Moreover, bank is not into the pricing game when it comes to deposits and doesn't see as a sustainable strategy. In Q3, there was a heightened war on deposits, which we did not chase. Q4 mobilization is healthy but includes some transitory flows. Q4 is generally strong on deposit flows. Some bonds by HDFC will mature every year, and some deposits will be used to repay bond maturities, keeping incremental LDR low.
- **PSL lending:** The bank has organically achieved or close to achieved overall PSL targets and sub-targets. At aggregate level, it achieved 52% of PSL in FY24 vs 45% in FY23. The small and marginal farmer sub-target will be organically achieved. Weaker section targets will be filled through inorganic means. Had 117k small and marginal farmers a few years earlier, which now stands at 3.5mn.
- **Profitability:** The bank has increased lending rates across products and some peers followed them as well, though not all. In corporate segment, they let go some clients due to irrational pricing environment, resulting in QoQ de-growth in the book. RoA is an anchor for management, and not NIM. Even if NIMs are stable, the bank will be happy. Change in business mix and benefits from bond maturities is what can drive NIM higher.
- **Growth:** Apart from pockets of exuberance and as long as pricing environment is rational, the bank will continue to grow at faster pace vs the system. They don't consider themselves too large as yet.

Quarterly Financials

Profit and Loss (Rs mn)*	Q4FY24	Q4FY23	% YoY / bps	Q3FY24	% QoQ / bps	FY24	FY23	% YoY / bps
Interest Income	714,728	451,194	58.4	705,826	1.3	2,583,406	1,615,856	59.9
Interest Expenses	423,959	217,675	94.8	421,113	0.7	1,498,081	747,433	100.4
Net Interest Income	290,768	233,518	24.5	284,713	2.1	1,085,325	868,422	25.0
NII to Net Operative Income	61.5	72.8	(1,124)	71.9	(1,033)	68.8	73.6	(477)
NIM (%)	3.4	4.1	(70)	3.4	-	3.6	4.1	(50)
Fees & commissions	79,900	66,281	20.5	69,400	15.1	281,560	238,440	18.1
FX & Derivatives	11,400	10,105	12.8	12,100	(5.8)	48,800	42,917	13.7
Profit on Sale / Rev of Investments	76,000	(377)	NA	14,700	417.0	106,630	(13,411)	NA
Miscellaneous income	14,400	11,302	27.4	15,200	(5.3)	55,490	44,201	25.5
Other Income - Total	181,663	87,312	108.1	111,370	63.1	492,480	312,147	57.8
Other Income to Net Operative Income	38.5	27.2	1,124	28.1	1,033	31.2	26.4	477
Net Operating Revenue	472,431	320,830	47.3	396,084	19.3	1,577,805	1,180,569	33.6
Employee Expenses	69,362	43,621	59.0	53,518	29.6	222,402	155,124	43.4
Empl. Cost/Oper. Exps.	14.7	13.6	109	13.5	117	14.1	13.1	96
Other Opex	110,326	91,001	21.2	106,093	4.0	411,458	321,397	28.0
Other Opex/ Assets	0.4	0.4	(4)	0.4	1	1.4	1.4	(6)
Total Opex	179,688	134,621	33.5	159,611	12.6	633,860	476,521	33.0
Cost to Income Ratio (%)	38.0	42.0	(393)	40.3	(226)	40.2	40.4	(19)
Pre-Provision Profits	292,742	186,209	57.2	236,473	23.8	943,945	704,049	34.1
Provisions & Contingencies - Total	135,116	26,854	403.2	42,166	220.4	234,921	116,292	102.0
NPA Provisions as % Oper. Income	46.2	14.4	3,173	17.8	2,832	24.9	16.5	837
Profit Before Tax	157,632	159,355	(1.1)	194,309	(18.9)	709,023	587,756	20.6
Tax	(7,493)	38,881	NA	30,581	NA	100,830	143,766	(29.9)
Effective Tax Rate (%)	(4.8)	24.4	NA	15.7	NA	14.2	24.5	NA
Reported Profits	165,124	120,475	37.1	163,728	0.9	608,193	443,990	37.0
RoA (%)	1.9	2.1	(26)	1.9	(3.8)	1.9	2.1	(16)
Basic EPS	21.7	21.6	0.7	21.6	0.7	85.8	79.3	8.3

Source: DART, Company, *YoY not comparable due to merger

Balance Sheet Analysis*	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Net Worth	2,675,424	2,801,990	2,938,146	4,050,298	4,222,999	4,375,931	3.6	56.2
CET1 (%)	16.4	16.4	16.2	17.3	16.3	16.3	-	(10)
Tier 1 (%)	17.2	17.1	16.9	17.8	16.8	16.8	-	(30)
Total CAR (%)	19.4	19.3	18.9	19.5	18.4	18.8	41	(46)
RWA - Total	15,362,720	15,866,350	16,708,990	21,742,260	23,865,000	24,680,000	3.4	55.5
Advances - Total	15,068,093	16,005,859	16,156,720	23,312,329	24,460,757	24,848,615	1.6	55.2
Investments	5,272,767	5,170,014	5,657,776	7,234,359	6,749,314	7,024,150	4.1	35.9
Total Assets	22,953,053	24,660,815	25,016,930	34,163,102	34,926,390	36,176,231	3.6	46.7
RoA (%)	2.24	2.12	2.04	2.00	1.90	1.86	(4)	(26)
Deposits	17,332,040	18,833,947	19,130,958	21,728,578	22,139,770	23,797,863	7.5	26.4
Saving Deposit	5,352,060	5,624,930	5,606,040	5,699,560	5,799,000	5,987,000	3.2	6.4
Current Deposit	2,277,450	2,734,960	2,523,500	2,477,490	2,558,000	3,100,000	21.2	13.3
CASA Deposits	7,629,510	8,359,890	8,129,540	8,177,050	8,355,000	9,087,000	8.8	8.7
CASA Ratio (%)	44.0	44.4	42.5	37.6	37.7	38.2	50	(620)
Term Deposits	9,702,530	10,474,057	11,001,418	13,551,528	13,784,770	14,710,863	6.7	40.5

*YoY not comparable due to merger

Movement of NPA * (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Gross Advances	15,255,203	16,088,420	16,294,120	23,565,590	24,612,437	25,139,774	2.1	56.3
Gross NPA	187,639	180,190	190,641	315,779	310,117	311,733	0.5	73.0
Gross NPA Ratio (%)	1.23	1.12	1.17	1.34	1.26	1.24	(2)	12
PCR - Calculated (%)	73.2	75.8	74.9	74.4	75.3	74.0	(124)	(171)
Net Advances	15,225,061	16,179,370	15,922,900	23,065,114	24,722,903	24,520,424	(0.8)	51.6
Net NPA	50,243	43,684	47,769	80,728	76,641	80,917	5.6	85.2
Net NPAs Ratio (%)	0.33	0.27	0.30	0.35	0.31	0.33	2	6
Reported Profits	122,595	120,475	119,518	159,767	163,728	165,124	0.9	37.1
RoA (%)	2.24	2.12	2.04	2.00	1.90	1.86	(4)	(26)

Source: DART, Company, *YoY not comparable due to merger

Loan Book Analysis (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ % / bps	YoY % / bps
Personal Loans	1,646,410	1,716,760	1,767,340	1,786,910	1,815,000	1,846,000	1.7	7.5
Auto	1,124,420	1,174,290	1,217,320	1,255,160	1,280,000	1,311,000	2.4	11.6
Mortgages	6,493,450	6,783,360	6,929,063	7,171,250	7,433,000	7,709,000	3.7	13.6
PL/ Credit Card	833,140	861,040	904,360	909,070	971,000	1,020,000	5.0	18.5
Two Wheelers	97,590	99,330	103,670	109,570	113,000	118,000	4.4	18.8
Gold Loans	100,420	108,420	116,910	126,040	131,000	138,000	5.3	27.3
other retail Loans	563,740	597,540	594,980	445,000	446,000	469,000	5.2	-21.5
CRB (Ex Agri)	5,023,560	5,474,330	5,631,910	6,147,270	6,580,529	6,786,234	3.1	24.0
Agriculture	709,120	817,190	796,370	904,870	930,000	1,053,000	13.2	28.9
Wholesale Banking	3,922,540	4,097,120	4,046,370	4,281,090	4,366,312	4,268,000	-2.3	4.2
Non-individual loans	1,230,390	1,210,110	1,095,832	1,219,600	1,205,159	1,041,068	-14.1	-14.0
Bank (ex non individual & IBPC book)	20,514,390	21,729,380	22,108,293	23,136,230	24,065,841	24,718,234	2.7	13.8
Total	21,228,570	22,347,360	22,451,004	23,546,330	24,693,000	25,095,302	1.6	12.3

Source: DART, Company

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Interest Income	1,615,856	2,583,406	3,154,967	3,590,878
Interest expenses	747,433	1,498,081	1,852,613	2,061,011
Net interest income	868,422	1,085,325	1,302,353	1,529,867
Other incomes	312,147	492,480	487,723	566,817
Total expenses	476,521	633,860	708,366	798,485
- Employee cost	155,124	222,402	255,762	291,569
- Other	321,397	411,458	452,604	506,916
Pre provisioning profit	704,049	943,944	1,081,710	1,298,199
Provisions	116,292	234,921	136,408	167,513
Profit before taxes	587,756	709,023	945,302	1,130,686
Tax provision	143,766	100,830	226,873	271,365
Profit after tax	443,990	608,193	718,430	859,322
Adjusted profit	443,990	608,193	718,430	859,322

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	5,580	7,597	7,597	7,597
Reserves & Surplus	2,796,411	4,394,861	4,919,615	5,566,816
Minority Interest	0	0	0	0
Net worth	2,801,990	4,402,458	4,927,212	5,574,413
Borrowings	2,067,656	6,621,531	5,575,724	4,022,853
- Deposits	18,833,947	23,797,863	29,272,553	36,205,675
- Other interest bearing liabilities	3	4	5	5
Current liabilities & provisions	957,223	1,354,379	1,190,605	924,642
Total Liabilities	24,660,815	36,176,230	40,966,095	46,727,582
Application of Funds				
Cash and balances with RBI	1,937,651	2,191,474	2,178,856	2,483,398
Investments	5,170,014	7,024,150	7,986,845	9,096,714
Advances	16,005,859	24,848,615	28,327,421	32,293,260
Fixed assets	80,165	113,990	148,743	185,325
Other current assets, loans and advances	1,467,125	1,998,002	2,324,229	2,668,885
Total Assets	24,660,815	36,176,230	40,966,095	46,727,582

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Yield on advances	8.6	10.1	9.7	9.7
Yields on interest earning assets	7.5	8.0	8.7	8.7
Yield on investments	6.4	7.3	6.8	6.8
Costs of funds	3.9	5.8	5.7	5.5
Cost of deposits	3.6	5.3	5.3	5.3
NIMs	4.1	3.4	3.6	3.7
(B) Asset quality and capital ratios (%)				
GNPA	1.1	1.2	1.2	1.2
NNPA	0.3	0.3	0.3	0.3
PCR	75.8	74.7	74.0	74.0
Slippages	1.8	1.3	1.2	1.2
NNPA to NW	1.6	1.8	1.8	1.7
CASA	44.4	38.2	38.2	38.2
CAR	19.3	18.4	16.0	15.6
Tier 1	17.1	16.8	14.7	14.5
Credit - Deposit	85.0	104.4	96.8	89.2
(C) Dupont as a percentage of average assets				
Interest income	7.1	8.5	8.2	8.2
Interest expenses	3.3	4.9	4.8	4.7
Net interest income	3.8	3.6	3.4	3.5
Non interest Income	1.4	1.6	1.3	1.3
Total expenses	2.1	2.1	1.8	1.8
- cost to income	40.4	40.2	39.6	38.1
Provisions	0.5	0.8	0.4	0.4
Tax	0.6	0.3	0.6	0.6
RoA	2.0	1.8	1.9	2.0
Leverage	8.8	8.3	8.4	8.4
RoE	17.1	16.9	15.5	16.4
RoRwa	2.8	2.5	2.3	2.4
(D) Measures of Investments				
EPS - adjusted	79.6	80.1	94.6	113.1
BV	502.2	576.0	645.1	730.3
ABV	494.3	565.4	633.5	717.5
DPS	15.5	19.0	21.0	23.0
Dividend payout ratio	3.0	4.0	5.0	5.0
(E) Growth Ratios (%)				
Net interest income	20.6	25.0	20.0	17.5
PPoP	9.9	34.1	14.6	20.0
Adj PAT	20.1	37.0	18.1	19.6
Advances	16.9	55.2	14.0	14.0
Total borrowings	11.9	220.2	(15.8)	(27.9)
Total assets	19.2	46.7	13.2	14.1
(F) Valuation Ratios				
Market Cap (Rs. mn)	11,633,133	11,633,133	11,633,133	11,633,133
CMP (Rs.)	1531	1531	1531	1531
P/E (x)	19.2	19.1	16.2	13.5
P/BV (x)	3.0	2.7	2.4	2.1
P/ABV (x)	3.1	2.7	2.4	2.1
Div Yield (%)	1.0	1.2	1.4	1.5

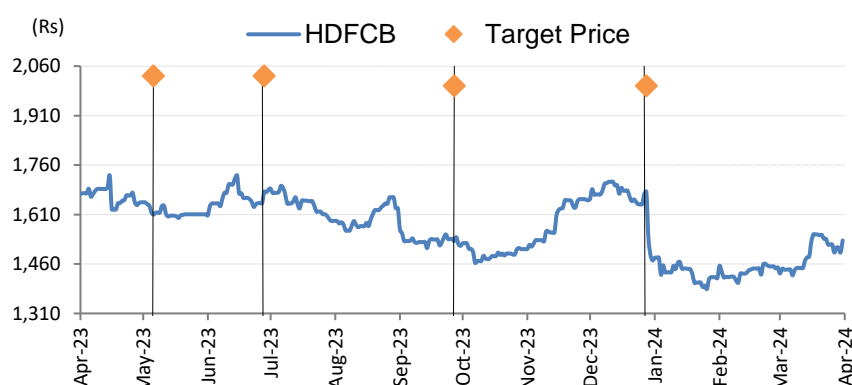
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	BUY	2,030	1,610
Jul-23	BUY	2,030	1,679
Oct-23	BUY	2,000	1,530
Jan-24	BUY	2,000	1,679

*Price as on recommendation date

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