



TM

23 January 2025

HDFC Bank

Stable performance largely along expected lines.

RESULT UPDATE

Sector: Banks Rating: BUY

CMP: Rs 1,671 Target Price: Rs 2,030

Stock Info

Sensex/Nifty	76,404/ 23,155
Bloomberg	HDFCB IN
Equity shares	7,648 mn
52-wk High/Low	Rs 1,880 / 1,363
Face value	Re 1
M-Cap	Rs 12,735bn/ USD 150bn
3-m Avg value	USD 320mn

Financial Snapshot (Rs bn)

Y/E March	FY25E	FY26E	FY27E
NII	1,237	1,384	1,580
PPP	1,010	1,142	1,315
PAT	683	775	892
EPS (Rs)	89.9	102.0	117.4
EPS Gr. (%)	12.3	13.5	15.1
BV/Sh (Rs)	644	721	810
Adj. BV/Sh (Rs)	626	701	788

Ratios

NIM (%)	3.5	3.6	3.7
C/I ratio (%)	40.4	40.1	39.7
RoA (%)	1.8	1.9	2.0
RoE (%)	14.7	14.9	15.3
Payout (%)	24.36	24.36	24.36

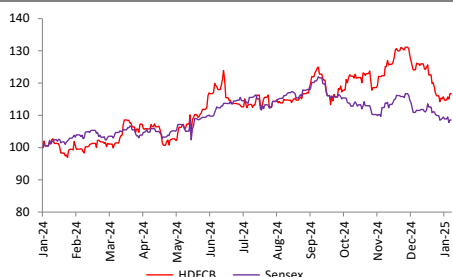
Valuations

P/E (x)	16.37	14.42	12.53
P/BV (x)	2.28	2.04	1.82
P/Adj. BV	2.35	2.10	1.87
Div. Yield (%)	1.3	1.5	1.7

Shareholding pattern (%)

	Jun'24	Sept'24	Dec'24
Promoter	-	-	-
-Pledged	-	-	-
FII	47.2	48.0	49.2
DII	35.2	35.1	34.4
Others	17.6	16.9	16.4

Stock Performance (1-year)



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HDFCB bank (HDFCB IN) reported 3QFY25 earnings of 167bn which was flat qoq, +2% yoy as modest margin decline, lower trading gains and seasonally higher credit costs were partly offset by controlled opex growth. Overall, earnings reflected a modest decline in NIM and unlike peers, did not show effects of the prevalent asset quality stress in retail. A good outcome overall, factoring for the already disclosed lower credit growth (given earlier in the business updates).

Other key highlights for the quarter were: (1) Deposit growth of 2.5% qoq, 15.8% yoy, 7.7% ytd continued to be higher than system deposit growth of 10% (as of 27-Dec'24) and higher than gross advances (ex IBPC/BRDS), growth of 0.9% qoq, 3% yoy, 1.4% ytd. (2) C-D ratio (ex IBPC) declined to 99.2% (-158bps qoq). (3) On reported basis, NIM (% IEA) declined to 3.62% (-3bps qoq) mainly due to higher liquidity. (4) Other Income was flat qoq, +2.8% yoy (-4.4% qoq, -1% yoy ex one-time service tax expense provision reversal of Rs 4.77bn in 3Q) mainly due to lower trading gains. (5) Opex/assets declined to 1.84% (-2bps qoq) led by productivity gains. (6) Asset quality was stable qoq factoring in the seasonality in agri NPAs as (GNPA ex agri) was stable qoq at 1.2%. (7) 9MFY25 RoA/RoE was 1.81%/14.4% (FY24: 1.87%/15.16%).

We trim our FY25 credit growth estimate to 3.5% yoy (from 7% earlier), incorporate the current run-rate of asset sales and rollover to Mar'27. We retain our BUY rating with a TP of Rs 2,030 (from 1,945 earlier) valuing the standalone bank at 2.3x Mar'27 P/ABV for FY25-27 avg RoA / RoE of 1.9%/15%. We assign Rs 200 per share to the subsidiaries. Based on our credit-deposit estimates, HDFCB is likely to revert to pre-merger CD-Ratio levels by the beginning of FY27-which is likely to be the first normal year of operations for the merged entity.

Credit growth continued to be muted and is likely to remain so for next couple of quarters: Gross Advances (ex IBPC/BRDS), at Rs 25.4 Tn grew by 0.9% qoq, 3% yoy, 1.4% ytd. Sequentially, growth was led by CRB & retail with growth of ~2% qoq, 10-11% yoy, 6-7% qoq. Wholesale segment also saw a growth of 1% qoq, -10.4% yoy, -5.3% ytd, after a sequential degrowth for last 3 quarters. Unsecured credit (PL+credit cards) growth was modest at 2.5% qoq, 10% yoy, 7.7% ytd. Within secured credit, gold loan growth was strong at (+5% qoq, 27.5% yoy) while home loans and auto loans growth was muted at ~1.8% qoq, 9-10% yoy, 5-7% ytd. **The bank maintained its guidance for FY25 credit growth to be slower than system on the back of (i) accelerated approach to align C-D ratio to 86-89% (99.2% as of Dec'24) in 2-3 yrs (vs 4-5yrs earlier); (ii) calibration in retail credit growth due to industrywide stress in unsecured credit and weak macro; (iii) narrowing of corporate spreads impacting wholesale credit margins.**

Quarterly deposit accretion of Rs 0.64Tn was better than expected. Margins to remain under pressure in the near term: Period end deposits at Rs 25.6 Tn saw a growth of 2.5% qoq, 15.8% yoy, 7.7% ytd which was higher than system deposit growth of 10% (as of 27-Dec'24). Quarterly accretion of Rs 0.64 Tn deposits was also higher as compared to expectation of Rs ~0.5 Tn. Period end CASA declined by -1.2%qoq, 4.4% yoy, -4% ytd. Term deposit growth was strong at 4.6% qoq (on a high base), 22.7% yoy, 15% ytd. In the medium term, deposit market share gains will be

driven by ramp up of branches given the capacity building exercise done in recent years.

Margins to remain under pressure in the near term: On reported basis, NIM (% IEA) declined to 3.62% (-3bps qoq) and NIM (% total assets) declined to 3.43% (-3bps qoq), vs guidance of stable near-term margins. This was mainly due to (i) increase in balance sheet liquidity (investments % IEA increased to 23% vs 20-21% trend over last 4 quarters) which is being deployed at sub ~7% yields (vs book yield of ~8.6%), (ii) pick-up in wholesale credit. **Margins will remain under pressure in the near term due to (i) changing deposit mix as CASA ratio declined to 34.04% (-130bps qoq, -414bps ytd); (ii) narrowing of wholesale spreads and calibrated growth in higher yielding retail credit; (iii) increase in balance sheet liquidity. However, in the medium-term margins will be supported by substitution of e-HDFCL's borrowings, on maturity, by customer deposits.**

Opex growth to remain muted and is likely to be a key RoA driver going forward. Other Income was flat qoq, +2.8% yoy (-4.4% qoq, -1% yoy ex one-time service tax expense provision reversal of Rs 4.77bn in 3Q). Decline in other income mainly due to lower trading gains (Rs 0.7bn in 3Q vs 2.9bn in 2Q). CIR was broadly stable qoq at 40.6% and Opex/assets declined to 1.84% (-2bps qoq). **Opex growth to remain moderate as the bank looks to drive productivity benefits on the back of branch additions done in past few years with bulk of the new branch additions now behind.** PPOP growth was muted at 1.2% qoq, 5.7% yoy mainly led by modest margin decline, lower other income on lower trading gains which was partly offset by controlled opex growth. PAT growth was flattish qoq, 2.2% yoy.

Overall asset quality stable: Asset quality was stable qoq, factoring in the seasonality in agri NPAs as (GNPA ex agri) was stable qoq at 1.2%. Retail GNPA was stable at 0.8% (stable qoq), CRB (ex agri) GNPA increased to 1.3% (vs 1.2% in 2Q) which was offset by corporate and wholesale GNPA declining to 1.7% (vs 1.8% in 2Q). **Overall asset quality remains stable qoq across segments including unsecured credit.**

Valuations and recommendations: We trim our FY25 credit growth estimate to 3.5% yoy (from 7% earlier), incorporate the current run-rate of asset sales and rollover to Mar'27. We retain our BUY rating with a TP of Rs 2,030 (from 1,945 earlier) valuing the standalone bank at 2.3x Mar'27 P/ABV for FY25-27 avg RoA / RoE of 1.9%/15%. We assign Rs 200 per share to the subsidiaries. **Based on our credit-deposit estimates, HDFCB is likely to revert to pre-merger CD-Ratio levels by the beginning of FY27-which is likely to be the first normal year of operations for the merged entity.**

HDFC Bank (HDFCB) 3QFY25 result concall key takeaways:**Balance sheet**

- In the first 9 months, the bank has 1% PSL shortfall on both the small and marginal farmers and weaker sections.
- Given the tightening spreads in the emerging corporate book, the bank's focus is to maintain wallet share and is not looking to aggressively increase the same.
- Business banking book is largely secured with small portion in unsecured which is mainly to self-employed segments.
- MFI book is 1% of total book and its asset quality remains intact.

Margins

- IT tax refund was about 2bn in 1Q vs 0.5bn in 2Q.
- Interest Income reversal was Rs 1-1.5bn (few bps of IEA)
- Loan mix by benchmark: 70% floating (45% repo, balance is MCLR and t-bill linked.), 30% fixed
- Lower trading gains (Rs 0.7bn in 3Q vs 2.9bn in 2Q) were due to -2bn MTM loss on equity investments.

Asset Quality

- The slippages were flat qoq excluding seasonal agri slippages. The seasonal agri slippages were mainly in the early buckets
- Total PCR was 68% and PCR ex agri was 71%.
- The bank released contingent provision of Rs 3bn due to recovery in a large wholesale account.
- Provisioning policy in unsecured: the bank provides 100% on 90dpd and write-off on 150 days.
- The bank has 15bps of NPA from the e.HDFCL book which were restructured in the erstwhile entity and hence are NPA in the bank as per RBI regulations. However the accounts are performing assets as of the current quarter.
- HDB financial's credit costs increased to 2.5% (vs 1.8% in 2Q) as stage -3 increased by +15bps qoq due to lower upgrades of NPAs to standard (0dpd bucket).
- However, stage-2 assets improved by +5bps qoq.

Exhibit 1: Quarterly performance

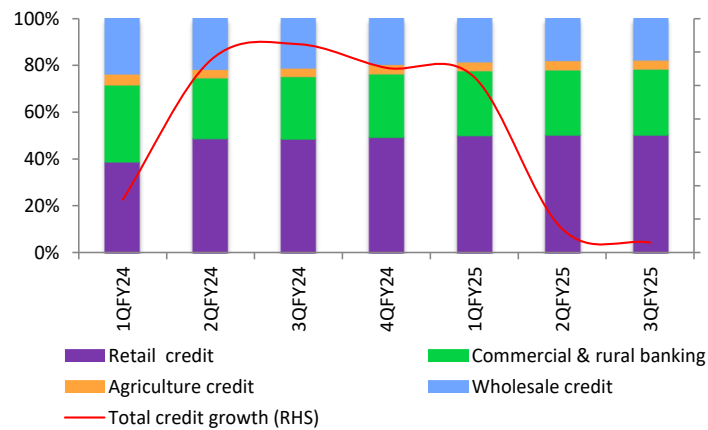
P&L (INR, mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)
Advances	2,51,82,482	2,44,60,757	3.0%	2,49,51,203	0.9%
Deposits	2,56,37,950	2,21,39,770	15.8%	2,50,00,882	2.5%
Interest income	7,60,069	7,05,826	7.7%	7,40,169	2.7%
Interest expenses	4,53,536	4,21,113	7.7%	4,39,030	3.3%
NII	3,06,533	2,84,713	7.7%	3,01,139	1.8%
Other income	1,14,536	1,11,370	2.8%	1,14,827	-0.3%
Operating income	4,21,068	3,96,084	6.3%	4,15,966	1.2%
Operating expenses	1,71,064	1,59,611	7.2%	1,68,909	1.3%
- Staff expenses	59,504	53,518	11.2%	59,853	-0.6%
PPOP	2,50,004	2,36,473	5.7%	2,47,057	1.2%
Provisions	31,539	42,166	-25.2%	27,004	16.8%
Profit before tax	2,18,466	1,94,307	12.4%	2,20,053	-0.7%
Taxes	51,111	30,581	67.1%	51,843	-1.4%
Profit after tax	1,67,355	1,63,725	2.2%	1,68,210	-0.5%
Key Ratios (%)	3QFY25	3QFY24	YoY (bps)	2QFY25	QoQ (bps)
Net Advances growth (YoY, %)	3.0%	62.3%	-5938 bp	7.0%	-408 bp
Deposit growth (YoY, %)	15.8%	27.7%	-1194 bp	15.1%	74 bp
Avg. CASA Ratio	34.0%	37.7%	-370 bp	35.3%	-130 bp
CD Ratio	98.2%	110.5%	-1226 bp	99.8%	-158 bp
NIM % of IEA (reported)	3.6%	3.6%	2 bp	3.7%	-3 bp
Cost to Income (ex capital gains)	40.7%	41.9%	-116 bp	40.9%	-20 bp
Credit costs % advances (reported)	0.5%	0.5%	1 bp	0.4%	7 bp
GNPA (%)	1.4%	1.3%	16 bp	1.4%	6 bp
NNPA (%)	0.46%	0.3%	15 bp	0.41%	5 bp
PCR (%)	67.8%	75.3%	-746 bp	69.9%	-207 bp
CAR	20.0%	18.4%	160 bp	19.8%	20 bp
Tier-I	18.0%	16.8%	120 bp	17.8%	20 bp

Source: Company, Systematix Institutional Research

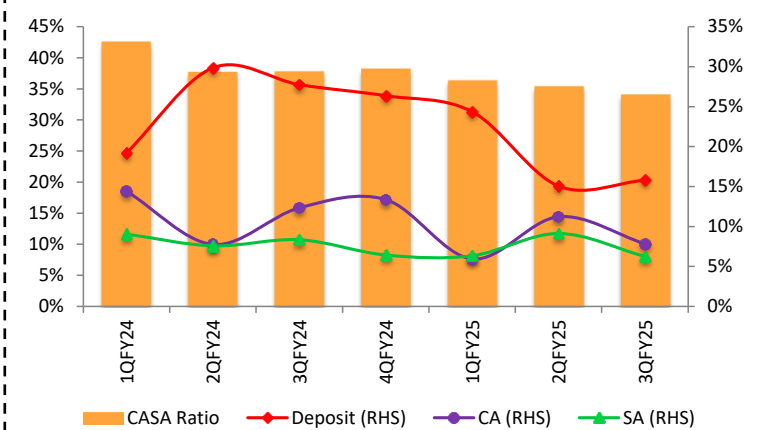
Exhibit 2: DuPont analysis

Du Pont (% of average assets)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Net interest income	3.3%	3.3%	3.3%	3.3%	3.3%
Other income	1.3%	1.2%	1.2%	1.3%	1.2%
Total income	4.6%	4.5%	4.5%	4.6%	4.5%
Operating expenses	1.8%	2.0%	1.9%	1.9%	1.8%
Employee expenses	0.6%	0.8%	0.7%	0.7%	0.6%
PPOP	2.7%	2.5%	2.7%	2.7%	2.7%
Provisions	0.5%	0.3%	0.3%	0.3%	0.3%
PBT	2.2%	2.2%	2.4%	2.4%	2.3%
PAT (RoAA)	1.9%	1.8%	1.8%	1.9%	1.8%
Leverage	8.3	8.2	8.0	7.9	7.9
ROE	15.8%	15.1%	14.4%	14.6%	14.1%

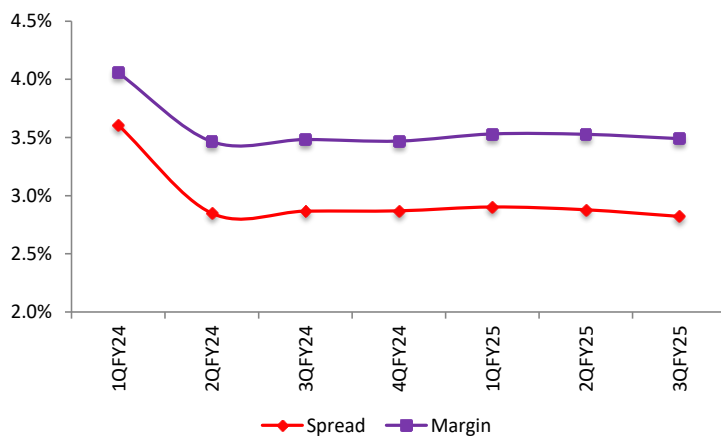
Source: Company, Systematix Institutional Research

Exhibit 3: Credit growth led by SME and retail

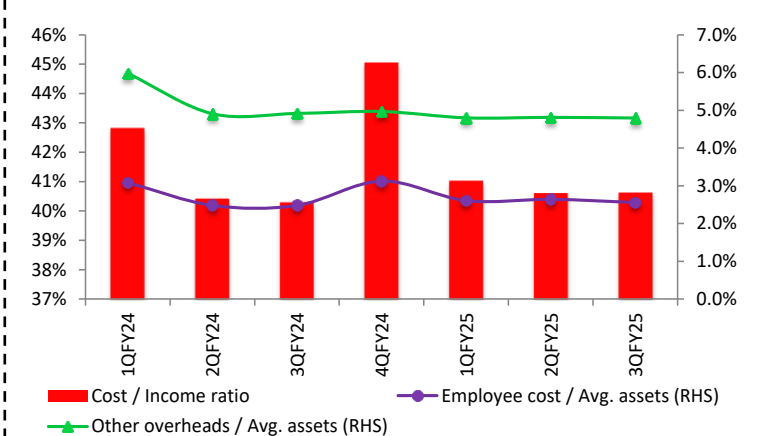
Source: Company, Systematix Institutional Research

Exhibit 4: CASA ratio declined to 34.04% (-130bp qoq, -414bp ytd).

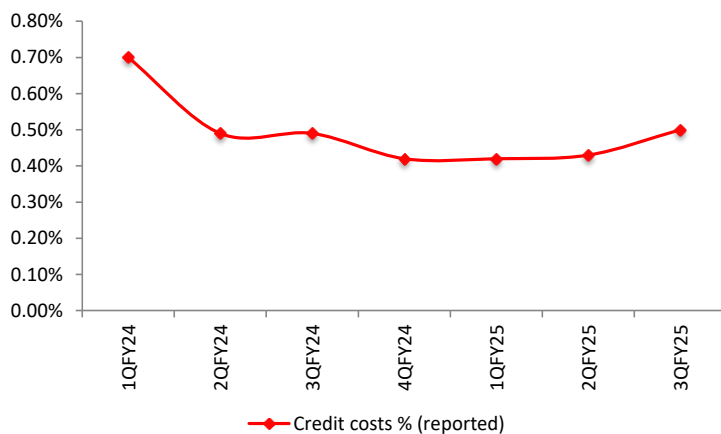
Source: Company, Systematix Institutional Research

Exhibit 5: Margin declined -3bps qoq on higher liquidity.

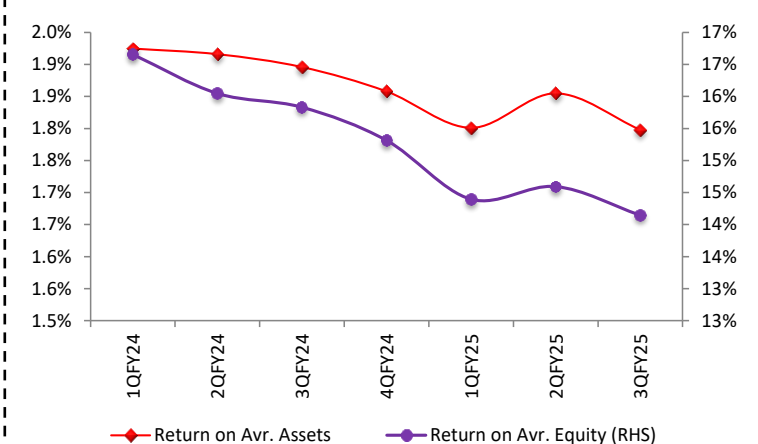
Source: Company, Systematix Institutional Research

Exhibit 6: Cost to income was stable qoq.

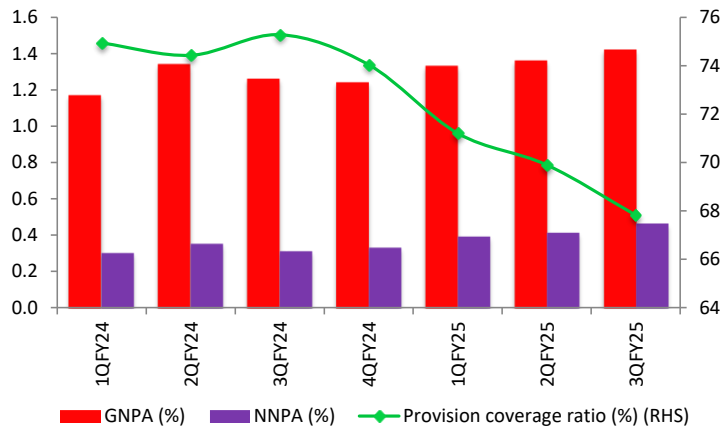
Source: Company, Systematix Institutional Research

Exhibit 7: Credit costs inched up on agri seasonality.

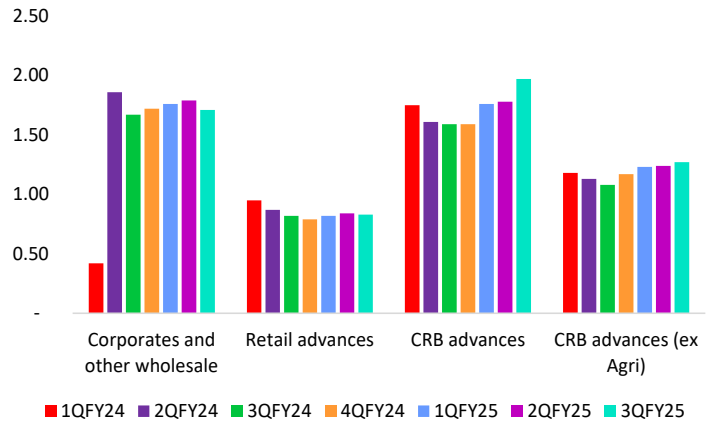
Source: Company, Systematix Institutional Research *2Q for merged entity

Exhibit 8: 9MFY25 RoA/RoE was 1.81%/14.4%

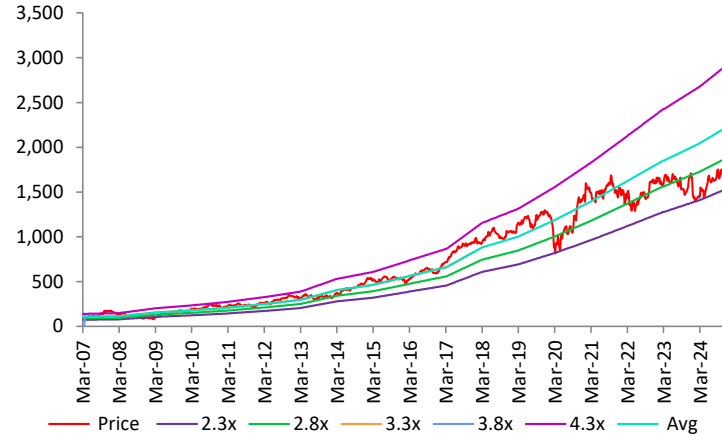
Source: Company, Systematix Institutional Research

Exhibit 9: GNPA increased marginally on seasonally higher agri slippages

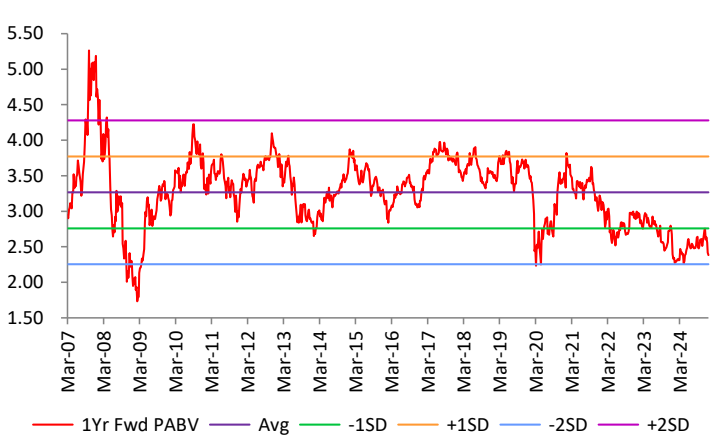
Source: Company, Systematix Institutional Research

Exhibit 10: GNPA reduced in the wholesale segment, retail stable qoq.

Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward P/ABV (x) multiple trajectory

Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward P/ABV trading 2SD below LT average

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	1,616	2,583	3,028	3,244	3,548
Interest Expenses	747	1,498	1,790	1,860	1,968
Net Interest Income	868	1,085	1,237	1,384	1,580
Change (%)	20.6	25.0	14.0	11.9	14.2
Comm., Exc. & Brokerage Inc.	238	282	321	366	417
Add: Other income	74	211	137	158	183
Net Income	1,181	1,578	1,695	1,908	2,181
Change (%)	16.3	33.6	7.4	12.6	14.3
Operating Expenses	477	634	686	766	866
Operating Profit	704	944	1,010	1,142	1,315
Change (%)	16.4	(8.6)	4.0	9.0	13.2
Provisions	119	235	116	128	147
PBT	585	709	894	1,014	1,168
Tax	144	101	211	239	276
Tax Rate (%)	24.58	14.22	23.60	23.60	23.60
PAT	441	608	683	775	892
Change (%)	19.3	37.9	12.3	13.5	15.1
Proposed Dividend	106	148	166	189	217

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	7.13	8.49	8.03	7.86	7.76
Interest Expended	3.30	4.92	4.75	4.51	4.30
Net Interest Income	3.83	3.57	3.28	3.35	3.46
Comm., Exc. & Brokerage Inc	1.05	0.93	0.85	0.89	0.91
Other Fee Income	0.35	0.35	0.34	0.36	0.38
Net Operating Income	5.23	4.84	4.48	4.61	4.75
Profit on sale of investment	(0.03)	0.35	0.02	0.02	0.02
Net Income	5.21	5.19	4.50	4.62	4.77
Operating Expenses	2.10	2.08	1.82	1.86	1.89
Operating Income	3.11	3.10	2.68	2.77	2.88
Provisions	0.53	0.77	0.31	0.31	0.32
PBT	2.58	2.33	2.37	2.46	2.55
Tax	0.63	0.33	0.56	0.58	0.60
PAT	1.95	2.00	1.81	1.88	1.95
Leverage	8.7	8.5	8.1	8.0	7.9
RoE	17.0	16.9	14.7	14.9	15.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Capital	6	8	8	8	8
Reserves & Surplus	2,796	4,368	4,885	5,471	6,146
Net Worth	2,802	4,665	4,926	5,513	6,188
Change (%)	16.7	66.5	5.6	11.9	12.2
Deposits	18,834	23,798	27,498	31,642	36,283
Change (%)	20.8	26.4	15.5	15.1	14.7
CASA Ratio (%)	44.4	38.2	38.2	38.2	38.2
Borrowings	2,068	6,622	5,284	4,316	3,518
Other Liabilities	957	1,354	1,490	1,862	2,142
Total Liabilities	24,661	36,439	39,198	43,332	48,130
Change (%)	19.2	47.8	7.6	10.5	11.1
Investments	5,170	7,024	8,780	10,009	11,010
Cash & Bank balance	1,938	2,191	2,364	2,450	2,640
Loans	16,006	24,849	25,718	28,290	31,826
Change (%)	16.9	55.2	3.5	10.0	12.5
Fixed Assets	80	114	131	164	205
Other Assets	1,467	1,998	2,204	2,419	2,449
Total Assets	24,661	36,176	39,198	43,332	48,130

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)					
Yield on Advances	8.6	10.1	9.5	9.3	9.2
Yield on Earning Assets	7.5	9.0	8.5	8.4	8.2
Cost of Deposits	3.6	4.7	4.8	4.8	4.8
Cost of Funds	3.9	5.8	5.7	5.4	5.2
NIM	4.1	3.8	3.5	3.6	3.7
Profitability Ratios (%)					
Cost/Income	40.4	40.2	40.4	40.1	39.7
PPOP / Avg. assets	3.1	3.1	2.7	2.8	2.9
RoE	17.0	16.9	14.7	14.9	15.3
RoA	1.9	2.0	1.8	1.9	2.0
Asset Quality (%)					
GNPA (Rs bn)	180	312	374	417	468
NNPA (Rs bn)	44	81	118	132	148
GNPA	1.1	1.2	1.4	1.5	1.5
NNPA	0.3	0.3	0.5	0.5	0.5
PCR	75.8	74.0	68.4	68.4	68.4
Capitalisation (%)					
CAR	19.3	18.8	20.5	20.2	20.3
Tier I	17.1	16.8	19.7	19.6	19.7
Tier II	2.1	2.0	0.8	0.6	0.6
Average Leverage on Assets (x)	8.7	8.5	8.1	8.0	7.9
Valuations					
Book Value (Rs)	502	576	644	721	810
Adj. Book Value (Rs)	496	567	626	701	788
Price-BV (x)	2.93	2.55	2.28	2.04	1.82
Price-Adj. BV (x)	2.96	2.60	2.35	2.10	1.87
EPS (Rs)	79	80	90	102	117
EPS Growth (%)	19	1	12	14	15
Price-Earnings (x)	18.61	18.38	16.37	14.42	12.53
Dividend (Rs)	19	20	22	25	29
Dividend Yield (%)	1	1	1	1	2

Source: Company, Systematix Institutional Research

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