20 February 2025

Company Update | Sector: Financials

HDFC Bank

BSE SENSEX	S&P CNX
75,736	22,913

Stock Info

Bloomberg	HDFCB IN
Equity Shares (m)	7648
M.Cap.(INRb)/(USDb)	12906.6 / 148.9
52-Week Range (INR)	1880 / 1397
1, 6, 12 Rel. Per (%)	4/10/13
12M Avg Val (INR M)	31190
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	1,085	1,207	1,291
OP	944	988	1,075
NP	608	668	712
NIM (%)	3.4	3.4	3.3
EPS (INR)	80.0	87.9	93.7
EPS Gr. (%)	1.0	9.9	6.5
BV/Sh. (INR)	580	647	720
ABV/Sh. (INR)	555	616	686
Ratios			
RoA (%)	1.8	1.8	1.7
RoE (%)	14.6	14.3	13.7
Valuations			
P/E(X)	21.1	19.2	18.0
P/E(X)*	17.4	15.9	14.9
P/BV (X)	2.9	2.6	2.3

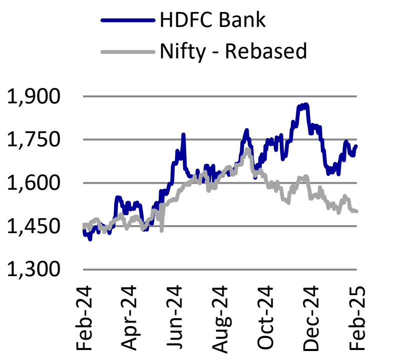
***adj for subs**

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	0.0	0.0	0.0
DII	29.9	30.6	26.6
FII	56.0	55.0	58.8
Others	14.1	14.4	14.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,686 TP: INR2,050 (+22%) Buy

Marching towards normalized growth and profitability

Asset quality robust; Estimate RoA to gain traction from FY27E

- **HDFC Bank (HDFCB) has been reporting softer loan growth as the bank prioritized profitable growth over top-line and remains focused on reducing its CD ratio. We thus model in loan growth at 4%/10%/13% over FY25-27.**
- **HDFCB is re-orienting loan book towards higher-yielding CRB/retail assets and gradually replacing high-cost borrowings with deposits to improve margins. NIM is anticipated to exhibit a positive bias in the medium term, particularly from FY27 onwards, as a reduction in the repo rate pushes down lending yields in FY26.**
- **We note that while due to pressure on revenue lines (soft loan growth + muted margins) the C/I ratio remains sticky however the bank maintains a tight control on Cost-Assets ratio and we estimate further moderation in cost-ratios from FY27E onwards driven by operating leverage and margin recovery.**
- **Asset quality remained strong with robust underwriting and risk-calibrated lending, evidenced by the GNPA/NNPA ratios of 1.4%/0.5%, prudent provisions, and resilient asset quality across sectors. We estimate credit cost to remain at ~50bp over the medium term.**
- **The gradual retirement of high-cost borrowings, along with an improvement in operating leverage, will aid calibrated expansion in RoA over the coming years. We thus estimate HDFCB to deliver FY27E RoA/RoE of 1.8%/14.2%. Reiterate BUY rating with a TP of INR2,050.**

CD ratio restoration underway at an accelerated pace

HDFCB's loan growth was modest at ~3% YoY in 3QFY25, as the bank prioritized profitable growth over revenue growth and focused on reducing its CD ratio. The growth was mainly propelled by an ~11% YoY rise in the CRB segment, with the retail loan book expanding ~10% YoY, including a 9.7% growth in mortgages and a 10% rise in unsecured loans. The agricultural loan portfolio grew ~15.7% YoY. The deceleration in loan growth has eased the CD ratio, and the management expects FY26 loan growth to align with the system, with growth accelerating in FY27. We thus estimate ~10%/13% loan growth over FY26/FY27.

Liability momentum strong; moderation in rate environment to aid SA growth

HDFCB is focusing on building a granular, high-quality liability base by prioritizing customer engagement and service delivery, rather than competing aggressively on deposit rates. While shedding high-cost deposits from HDFC Ltd., the bank is not targeting large, high-ticket deposits. Efforts to convert mortgage customers into primary banking clients, particularly for savings accounts, are expected to drive sustainable deposit growth. Although its CASA mix deteriorated to 34% in 3QFY25, management noted strong gross inflows and improving relationship value with newly acquired customers, particularly savings account holders. We anticipate a gradual improvement in the CASA ratio and estimate a ~15% CAGR in deposits over FY25-27.

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Unwinding of high-cost borrowings to continue

The bank has successfully reduced its borrowings, with a 23% decline in outstanding borrowings over the past year and a consistent reduction in its borrowing mix over the last four quarters. Following the merger with HDFC Ltd., ~15% of HDFCB's INR4t borrowings will mature annually until FY27, with the remaining 55% maturing thereafter. While the bank shed INR630b in high-cost borrowings during 1QFY25, it managed to shed only INR291b in 2QFY25 and 3QFY25 due to the non-callable nature of these borrowings, making repayments challenging. HDFCB plans to continue growing its deposit base to replace maturing borrowings and support growth. Management anticipates significant funding needs, which will be required to replace high-cost debt.

NIM to exhibit a positive bias in the medium term; turn in the rate cycle to alleviate funding cost pressures

HDFCB is realigning its portfolio towards higher-yielding retail assets and replacing high-cost borrowings with deposits to enhance margins amid rising funding costs and a declining CASA mix. Despite this shift, margins have remained under pressure, with NIM ranging between 3.43% and 3.47% over the past three quarters, after falling 100bp from the FY19 levels. The bank has raised yield thresholds on retail and rural loans and selectively grown its corporate portfolio. With a gradual reduction in high-cost borrowings and improved CASA mix expected over FY26-27, margins are likely to improve, particularly from FY27 onwards as the repo rate declines. The bank's lower exposure to repo-linked loans (~45%) and focus on improving CASA and asset mix position it well to revive NIMs to ~3.4% levels by FY27E.

Operating leverage to improve; estimate C/I ratio at 39.8% by FY27

HDFCB's operational efficiency strategy focuses on increasing throughput and customer convenience through digital technology, alongside a consistent pace of branch expansion and investments in technology and staffing. The bank has added ~405 branches in 9MFY25, following strong branch additions in FY23 and FY24. Despite these investments, cost ratios have remained stable, with the C/I and cost/asset ratios at ~40.6% and 1.89%, respectively, in 3QFY25. While the merger with HDFC Ltd. initially brought in higher-cost borrowings amid rising interest rates, the recent repo rate cut is anticipated to lower funding costs and support savings deposit growth. Although pressure on CASA may keep cost ratios steady in the short term, improved margins and operating leverage are expected to enhance these ratios in the medium to long term, with C/I and cost/asset ratios estimated to improve to ~39.8% and 1.71% by FY27E, respectively.

Asset quality stable; robust underwriting provides comfort

The bank has maintained strong asset quality through robust underwriting and a risk-calibrated lending approach. It reported a GNPA/NNPA ratio of 1.4%/0.5% in 3QFY25, with credit costs at ~50bp and slippages controlled at INR88b – 1.4% of average loans (INR65b ex-agri). The bank adopts a prudent provisioning strategy, holding a floating provision of INR124b, specific provisions of INR244b, and a contingent provision of INR135b. Despite systemic stress in unsecured lending, the bank's unsecured portfolio remains resilient with a retail GNPA ratio of ~0.8%, reflecting its cautious growth strategy. Asset quality remains strong across

Corporate, Rural Banking, and Agriculture sectors, positioning the bank to keep its credit costs contained at ~50bp over the medium term.

Valuation and view: Reiterate BUY with a TP of INR2,050

HDFCB has intentionally slowed down its business growth and has maintained a healthy pace of liability accretion amid a very challenging macro environment. The bank has been delivering a resilient performance on asset quality supported by its robust underwriting and strong understanding of market cycles. Over the past few quarters, the margins have remained within a narrow range aided by improving asset mix and retirement of high-cost borrowings, though the CASA mix continues to remain under pressure. Asset quality remains broadly stable with PCR at ~70%.

- The bank holds a healthy pool of provisions (floating + contingent) at INR259b/ 1.0% of loans. While management has not given any specific guidance on the C/D ratio, it has indicated that it will actively focus on bringing the ratio down at an accelerated pace.
- Consequently, we have factored in loan growth of 9.5%/13% over FY26/FY27E, while deposit CAGR is likely to sustain at ~15%. However, the gradual retirement of high-cost borrowings, along with an improvement in operating leverage, will aid calibrated expansion in RoA over the coming years.
- We thus estimate HDFCB to deliver FY27E RoA/RoE of 1.8%/14.2%. **We reiterate our BUY rating on the stock with a TP of INR2,050 (premised on 2.3x FY27E ABV + INR290 for subsidiaries).**

CD ratio restoration in full swing

Loan book gaining granularity; improving maturity profile to aid cross-selling

- HDFCB's loan growth was sluggish at ~3% YoY in 3QFY25, as the bank continued to focus on bringing down its CD ratio. Management has made it clear that its priority is profitable growth rather than revenue growth, which will guide its shift towards higher-yielding assets.
- The growth has thus primarily been driven by the CRB segment, which grew ~11% YoY. The retail loan book grew ~10% YoY, with the mortgage book growing at 9.7% YoY and the unsecured book rising at 10% YoY. The agricultural loan portfolio grew ~15.7% YoY.
- The sharp deceleration in loan growth has considerably eased the CD ratio over the past four quarters. Management has guided the FY26 loan growth to fare in line with the system while the growth rate would accelerate ahead of the system in FY27E. We are now factoring in 10%/13% loan growth over FY26-27E.

Exhibit 1: Estimate loan growth at ~10%/13% for FY26/27

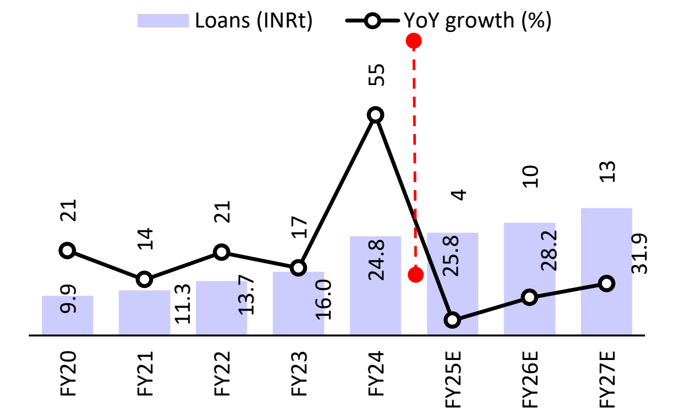


Exhibit 2: Loan market share stood at 14.2% in 9MFY25

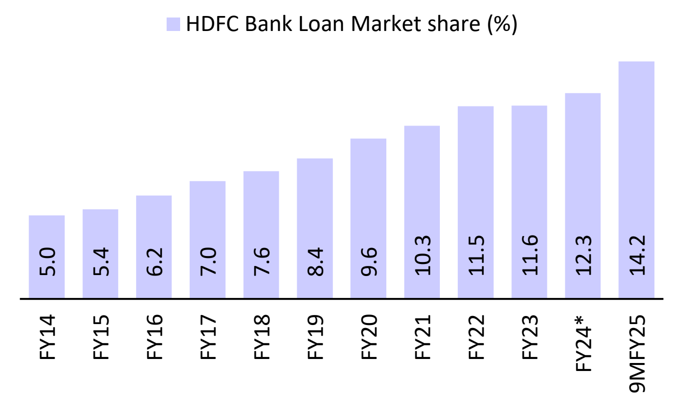
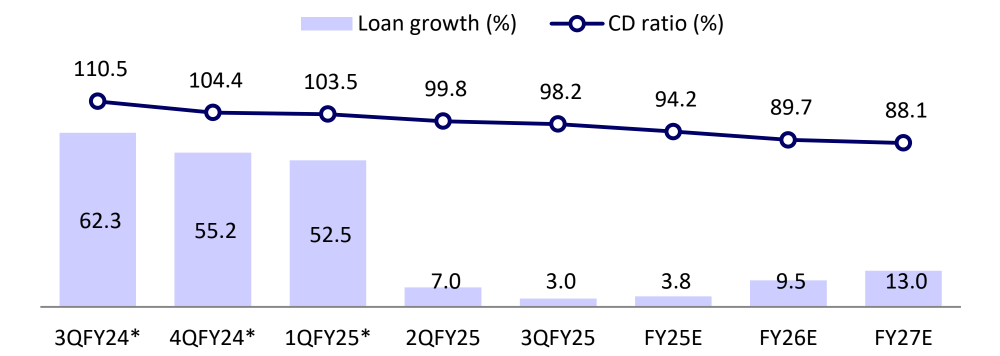


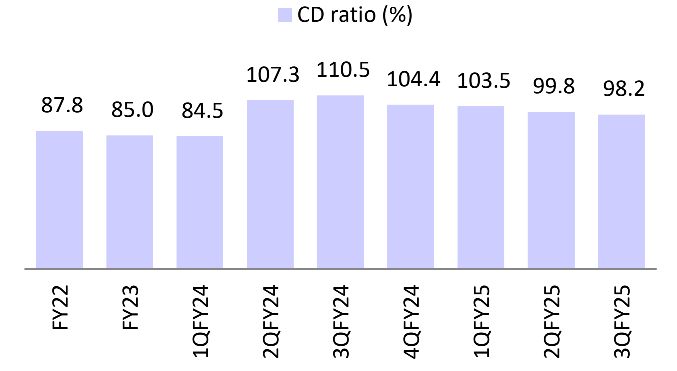
Exhibit 3: Estimate CD ratio to reach <90% by FY26



- Loan growth seems high due to merger of HDFC Ltd

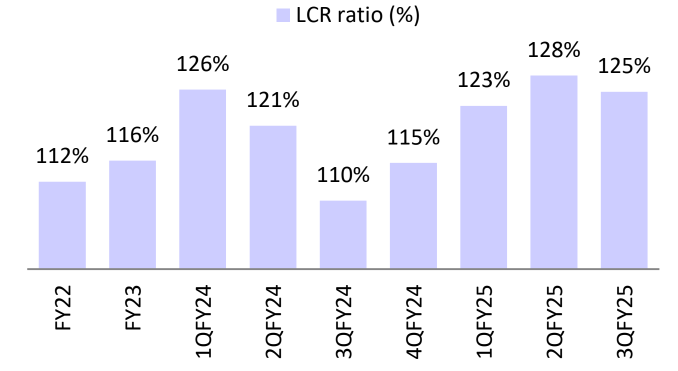
Source: Company, MOFSL

Exhibit 4: CD ratio eased sharply to 98.2% in 3QFY25



Source: MOFSL, Company

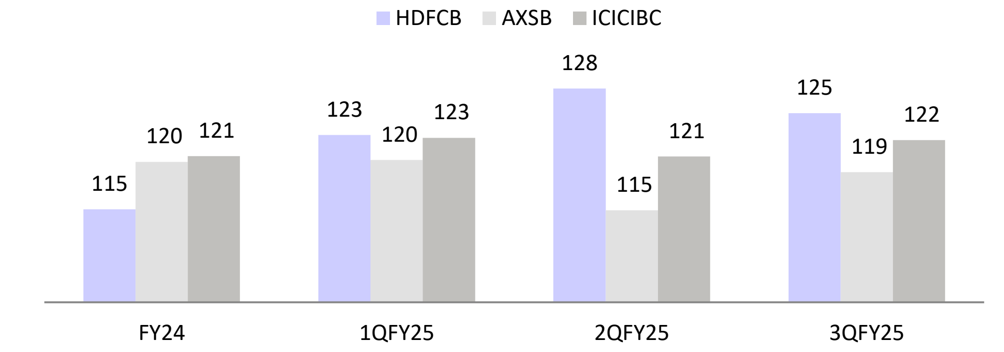
Exhibit 5: LCR ratio remained comfortable at 125% in 3Q



Source: MOFSL, Company

The LCR ratio of HDFCB has improved at a healthy rate to 125% in 3QFY25 from 115% in FY24

Exhibit 6: The LCR ratio of HDFCB was slightly higher than peers

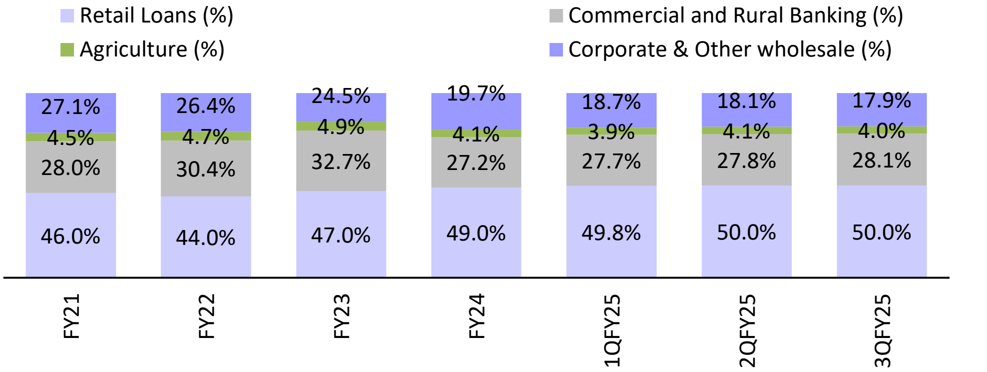


Source: Company, MOFSL

- HDFCB remains focused on mortgages, as it fosters a stronger customer relationship. In the non-mortgage retail segments, growth has been moderated due to credit dynamics. Management continues to prioritize organic growth in priority sector advances, retaining high quality through stringent credit filters.
- In its corporate book, HDFCB has avoided higher ticket-size loans with unappealing spreads. Looking ahead, as the unsecured loan cycle turns positive, the bank plans to resume growth by selectively targeting the right customers at optimal prices.
- The retail segment thus exhibited mixed trends with personal loans growing slower (at ~6% YoY), while stronger growth was witnessed in payment products (~16% YoY), auto loans (~9.3% YoY), two-wheeler loans (~8% YoY), and gold loans (~27.5% YoY).
- We thus estimate the credit deposit ratio to ease considerably to 94.2% by FY25 (from a high of 110.5% in 3QFY24) as a seasonally strong 4Q drives a sharp reduction in the CD ratio. Thereafter, we expect the CD ratio to moderate to 89.7%/88.1% over FY26/27E, backed by healthy progression in liabilities (15% CAGR) even as loan growth also begins to gain traction.

While HDFCB's retail loan growth has been slower than other private peers, the improved maturity profile of the asset/liability book will enable better cross-selling of lower-tenor, profitable credit

Exhibit 7: Loan mix has been gaining granularity with a rising mix of Retail & CRB segments



Source: Company, MOFSL

- To achieve balanced and profitable expansion, the bank is strategically managing growth to align with its overall balance sheet structure and regulatory requirements. A key element of this strategy is the cautious moderation of its unsecured personal loan portfolio with a strong focus on managing credit risks. This approach ensures that growth is sustainable and aligns with the bank's long-term goals, avoiding overly aggressive expansion that could lead to increased risk exposure.
- Over the recent quarters, the unsecured loan mix of HDFCB has thus moved in a narrow range and stood at 11.4% in 3QFY25, slightly lower than other major private peers.

Exhibit 8: Unsecured loan mix moderated to 11.4%

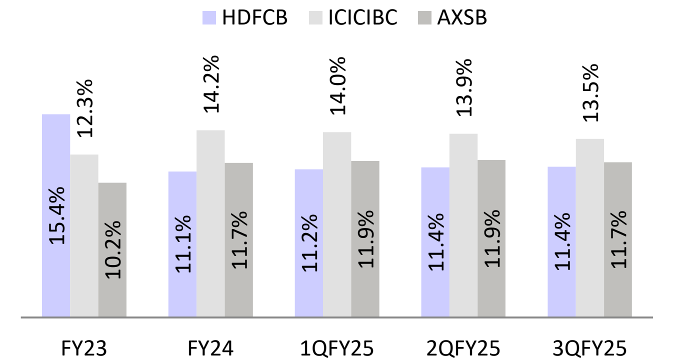
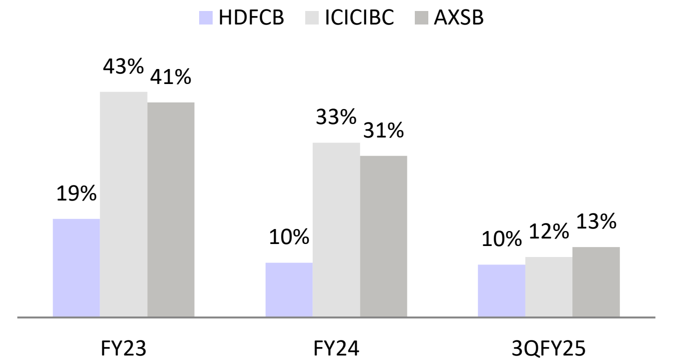


Exhibit 9: Unsecured book growth remained lower vs. peers

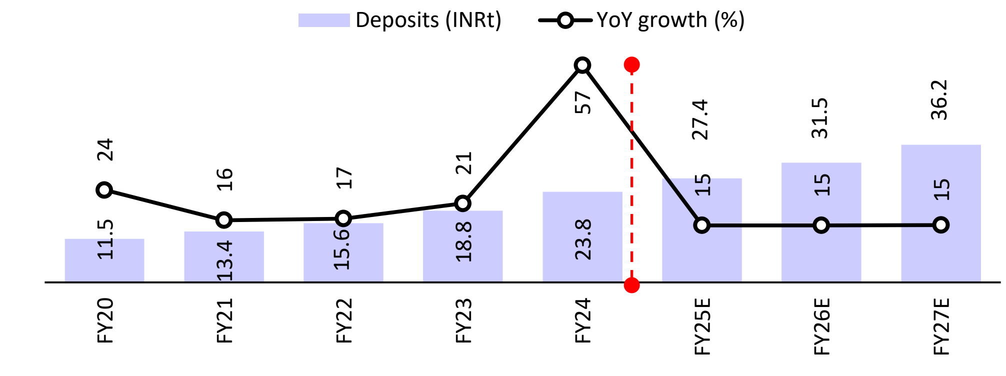


Liability momentum remains strong

Moderation in rate environment to aid SA growth

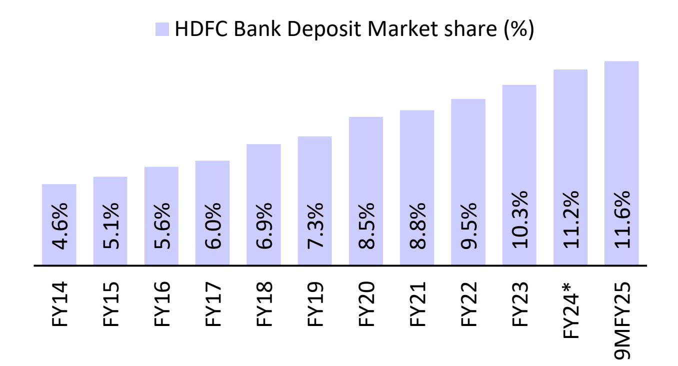
- HDFCB has been prioritizing the development of a granular, high-quality liability base, emphasizing customer engagement and service delivery over aggressive rate competition. While shedding high-cost deposits inherited from HDFC Ltd., the bank is not seeking to bid for lumpy, high-ticket deposits.
- Efforts to convert mortgage customers into primary banking customers (particularly for savings accounts), along with deepening relationships with existing customers, are expected to support sustainable deposit growth.
- HDFCB's CASA mix has successively declined to 34% in 3QFY25. However, management has indicated that the traction on gross inflows continues to remain quite strong as the bank continues to add new relationships and the relationship value of the recently acquired customers (especially SA customers) continues to improve at a healthy pace. We expect the bank's CASA ratio to witness gradual improvement benefitting from moderation in the rate environment and estimate ~15% CAGR in deposits over FY25-27.

Exhibit 10: Estimate deposits to clock a 15% CAGR over FY25-27



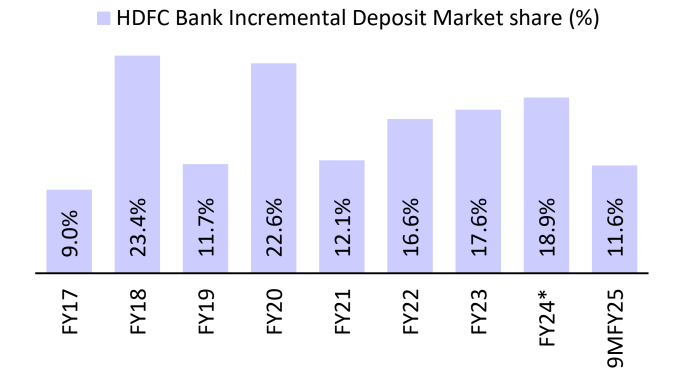
Source: Company, MOFSL

Exhibit 11: Deposit market share improved to 11.6%



*FY24 deposits are excl. HDFC Ltd Source: MOFSL, Company

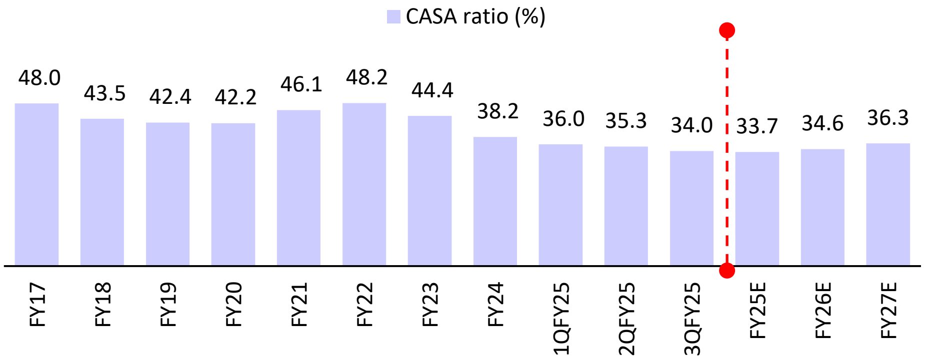
Exhibit 12: Incremental deposit market share also stood at 11.6% for 9MFY25; seasonally strong 4Q should aid the same



*FY24 deposits are excl. HDFC Ltd Source: MOFSL, Company

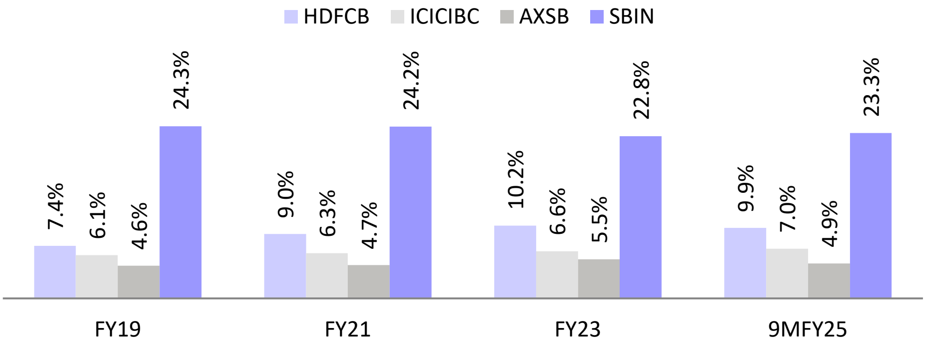
We expect HDFCB's CASA ratio to witness a gradual improvement over FY26-27.

Exhibit 13: CASA mix deteriorated ~34% in 3QFY25; estimate recovery from FY26 onwards



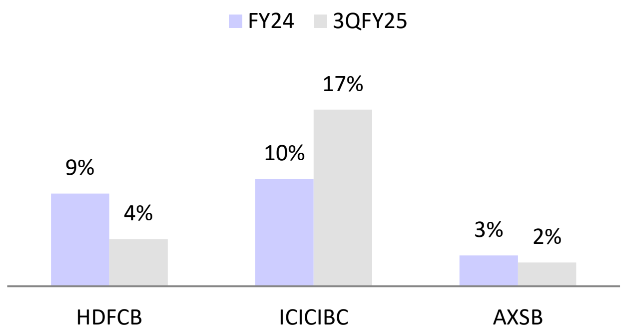
Source: Company, MOFSL

Exhibit 14: HDFCB's share in systemic CASA deposits has improved over the years



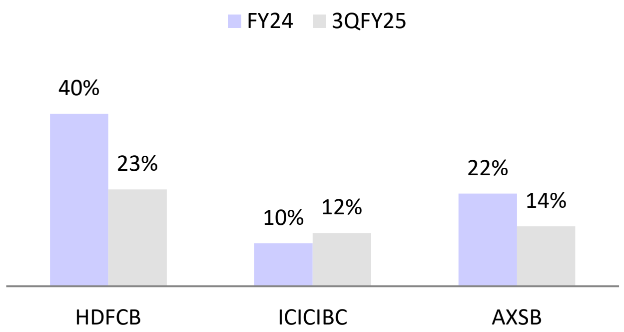
Source: Company, MOFSL

Exhibit 15: CASA deposits grew at a tepid pace as...



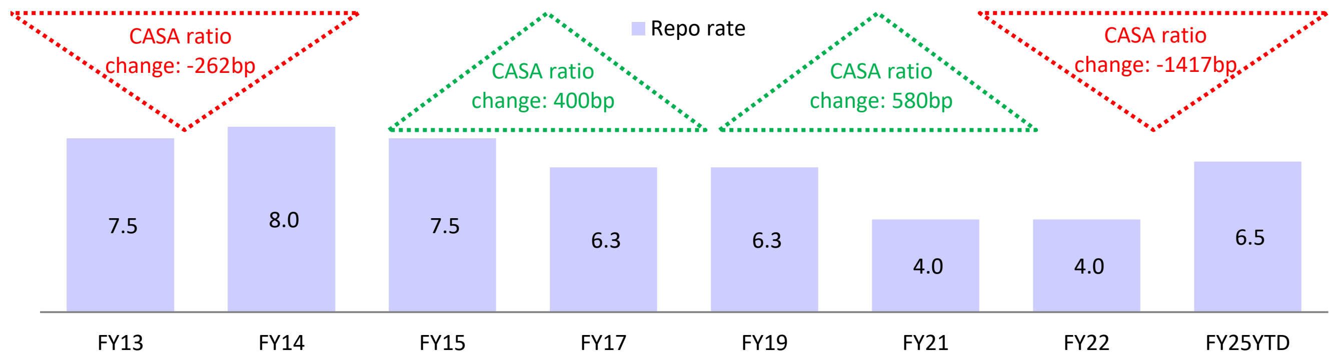
Source: MOFSL, Company

Exhibit 16: ...TD growth remained strong backed by high rates



Source: MOFSL, Company

Exhibit 17: Repo rate and CASA mix have exhibited an inverse relationship



Source: MOFSL, RBI

Unwinding of high-cost borrowings to continue

- HDFCB has demonstrated a healthy reduction in borrowings with successive declines in borrowing mix over the last four quarters. The bank has thus reported a 23% decline in outstanding borrowings over the past one year.
- Of the erstwhile HDFC Ltd's borrowings of INR4t as of Mar'24 inherited by the bank during the merger, ~15% of the borrowings are set to mature every year until FY27, while the remaining 55% will mature thereafter.
- While the bank was able to shed some high-cost borrowings of INR630b during 1QFY25, it was able to shed only INR291b during 2QFY25 and 3QFY25, together as management indicated that this process involves some difficult negotiations given the non-callable nature of these borrowings and, hence, the quantum of repayments/prepayments will vary over time.
- HDFCB aims to continue growing its deposit base at an unhindered pace to position the bank well to replace the borrowings as and when they fall due for maturity. The bank thus anticipates significant funding requirements to drive growth as well as replace high-cost borrowings.

Exhibit 18: Maturity profile of deposits, advances, and borrowings

Maturity Profile - Domestic					
Deposits (INR m)	**FY24**	**Advances (INR m)**	**FY24**	**Borrowings (INR m)**	**FY24**
< 1 Year	84,11,636	< 1 Year	51,64,638	< 1 Year	12,86,728
1 - 3 Years	88,85,123	1 - 3 Years	1,01,25,799	1 - 3 Years	27,35,986
> 3 Years	65,01,104	> 3 Years	95,58,178	> 3 Years	25,98,817
Deposits (in %)	**FY24**	**Advances (in %)**	**FY24**	**Borrowings (in %)**	**FY24**
< 1 Year	35.3%	< 1 Year	20.8%	< 1 Year	19.4%
1 - 3 Years	37.3%	1 - 3 Years	40.7%	1 - 3 Years	41.3%
> 3 Years	27.3%	> 3 Years	38.5%	> 3 Years	39.2%

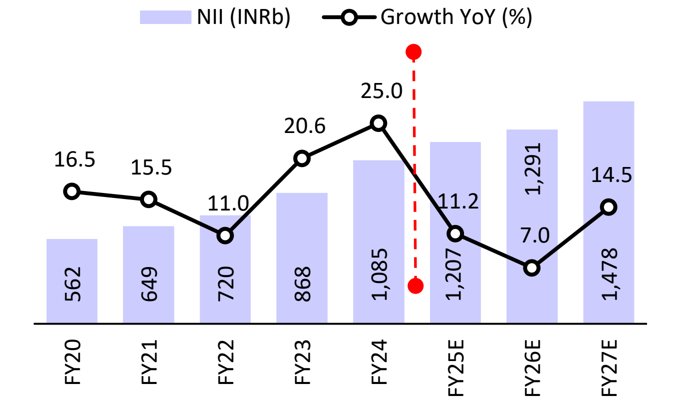
Source: Company, MOFSL

NIM to exhibit a positive bias in the medium term

Turn in the rate cycle to alleviate funding cost pressures

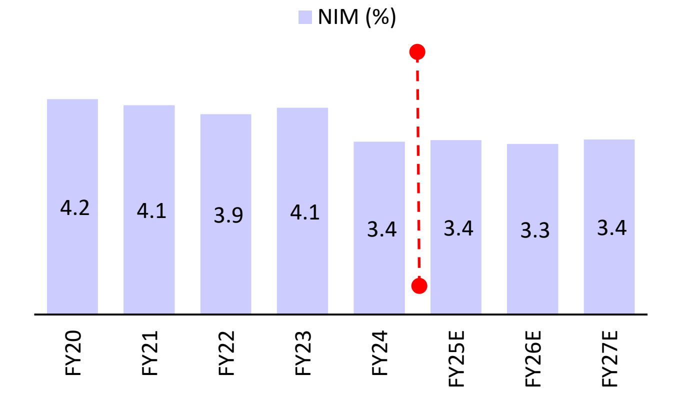
- HDFCB is strategically realigning its portfolio towards higher-yielding retail assets while replacing high-cost borrowings with deposits, a move crucial for enhancing margins amidst ongoing challenges.
- Despite this shift, the bank has witnessed continued pressure on margins due to rising funding costs and a sharp deterioration in the CASA mix. The NIM has thus remained within the range of 3.43%-3.47% over the past three quarters, after falling 100bp from FY19.
- The bank has raised the yield thresholds on several loan products, particularly in retail and rural banking, to support asset yields. Management has also become selective in growing the corporate portfolio.
- With the gradual reduction of high-cost borrowings and calibrated improvement in the CASA mix over FY26-27, margins are expected to show a positive bias in the medium term, particularly from FY27 onwards as a reduction in the repo rate pushes down lending yields in FY26.
- In a declining interest rate environment, HDFCB is well-positioned to be less impacted compared to its private peers due to the lower proportion of loans linked to the repo rate (~45%) and the ongoing retirement of high-cost borrowings. Additionally, the bank's focus on improving its CASA ratio and continued improvement in its asset mix will provide further support to margins. We thus expect NIMs to recover to ~3.4% by FY27E.

Exhibit 19: Estimate NII growth to bottom out in FY26 and recover to ~14.5% in FY27



Source: MOFSL, Company

Exhibit 20: NIM likely to recover from FY27E as a reduction in repo rate pushes margins in FY26



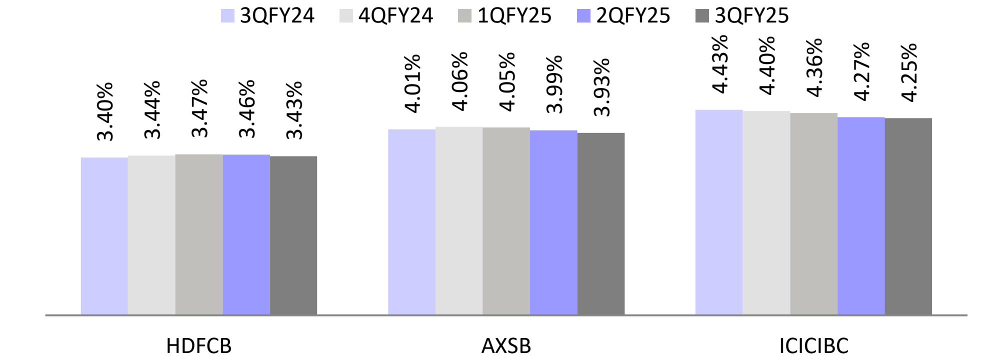
Source: MOFSL, Company

Exhibit 21: AXSB, FB, KMB, ICICIBC, and HDFCB have higher EBLR-/Repo-linked loans; PSBs have higher linkage to MCLR (%)

Loans Mix (%) - 3QFY25	MCLR	EBLR	Repo Linked	Others (Fixed, base rate, foreign currency-floating)
AUBANK*	28	10		62
AXSB	11	4	54	31
CBK*	48	41		11
FB	10	51		39
HDFCB	25		45	30
ICICIBC	16	1	52	31
INBK	57	37		5
KMB*	13	60		27
PNB	32	16	41	11
RBL***	7	35	58	
SBIN	36	28		37
BOB*	47	33		20
Equitas		20		80

*as on 2QFY25; *** as on FY24 Source: MOFSL, Company

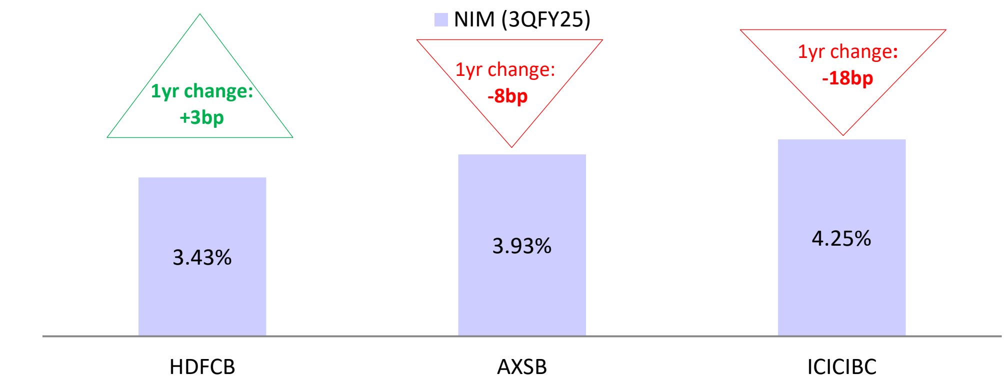
Exhibit 22: HDFCB's NIM improved to 3.43% in 3QFY25 from 3.40% in 3QFY24, while peers reported a slight compression during the same period



Source: MOFSL, Company

Due to the rising cost of funds, ICICIBC's margin has moderated to 4.25% in 3QFY25 from 4.43% in 3QFY24, whereas the same has improved slightly for HDFCB.

Exhibit 23: HDFCB's NIM expanded 3bp YoY, while same has moderated 8-18bp for peers



Source: MOFSL, Company

Overall PSL compliance improves

However, the SMF and Weaker sections still witness minor gaps

- The RBI has granted HDFCB three years to meet the priority sector lending (PSL) norms following its merger with HDFC Ltd. As per RBI rules, banks must allocate 40% of their adjusted net bank credit (ANBC) to the priority sector. To facilitate this, the RBI has allowed HDFCB to consider one-third of the outstanding HDFC loans in the first year of the merger, with the remaining two-thirds spread over the next two years equally. Effectively, HDFCB has to comply with the first year's target, one year after the effective date of the merger.
- With a strong focus on the Retail+CRB portfolio, the bank successfully met its PSL targets during FY24 and was a net seller of PSLCs in the market in contrast to being a buyer in the prior years. However, it experienced shortfalls specifically within the SMF and weaker section segments.
- HDFCB's total PSL achievement for FY24 stood at 53.9% as against a requirement of 40%. The achievement of direct lending to non-corporate farmers stood at 13.5% for FY24 as against a requirement of 13.8%. Achievement of lending to micro-enterprises stood at 10.7% as against a target of 7.5%. Lending to the total agricultural sector stood at 18%, meeting the overall requirement, while lending to small and marginal farmers stood at 8.50% vs. the requirement of 10%.
- The bank's approach to PSL focuses on organic growth, particularly in the areas of SMF and weaker sections, where the target is to reach ~9-10%. Currently, the bank is operating at 9-9.5% and is striving to close the gap organically, though external tools such as PSLC, IBPC, PTCs, and securitization are also available if needed.

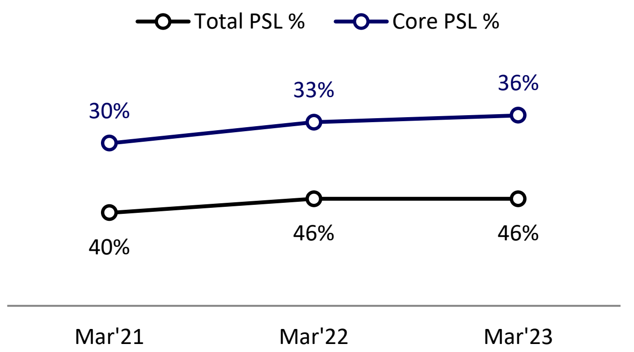
HDFCB has become a net seller of PSLCs during FY24 after reporting a consistent shortfall in prior years.

Exhibit 24: PSLC trends across years

INR b	FY20	FY21	FY22	FY23	FY24
PSLC bought during the year	645.2	843.3	1006	699.9	819.7
PSLC sold during the year	167.5	20	0	363.1	1055.8

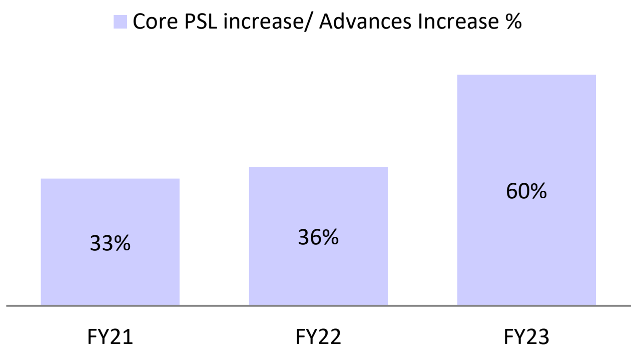
Source: MOFSL, Company

Exhibit 25: CRB has become the key PSL driver for the bank



Source: MOFSL, Company

Exhibit 26: CRB's PSL to ANBC at 80.3% as of Mar'23



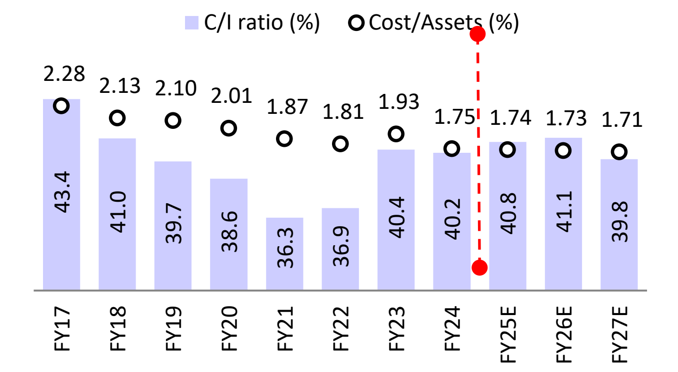
Source: MOFSL, Company

Operating leverage to improve; est. C/I ratio at 39.8% by FY27

The cost-to-asset ratio has commendably improved to 1.7% in FY25

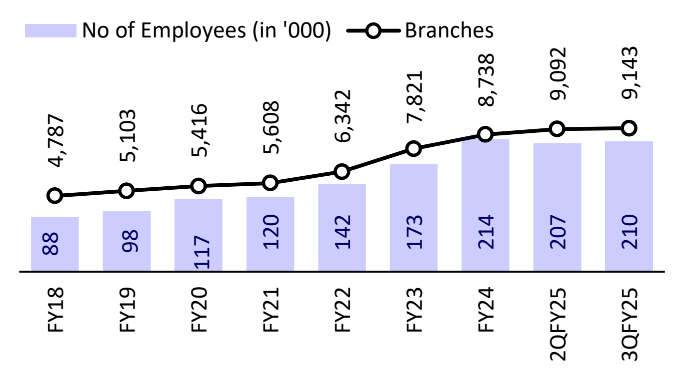
- HDFCB's opex strategy is centered on: 1) increasing operating efficiency and 2) the efficient use of digital technology, thereby increasing throughput and customer convenience.
- HDFC has reported strong control in cost ratios even as the bank undertook a consistent pace of branch expansion and continued investment in technology and employee addition. The bank has added ~405 branches in 9MFY25 (1,479 and 917 branches were added in FY23 and FY24, respectively). However, the C/I and cost/avg. asset ratios remained stable at ~40.6% and 1.89%, respectively, in 3QFY25 (estimate C/I at 39.8% and cost/asset at 1.71% by FY27).
- The merger between HDFC Ltd and HDFCB was announced on 4th Apr'22 and became effective on 1st Jul'23. Following the announcement, interest rates rose from 4% in Apr'22 to 6.5% in Feb'23, impacting HDFCB adversely as it onboarded HDFC Ltd's higher-cost borrowings. However, with the rate cycle turning (as the RBI effected a 25bp reduction in the repo rate), we believe that the bank will benefit from a lower cost of funding while moderation in term deposit rates will support growth in savings deposits.
- We believe that while the aggressive chase for deposits and pressure on the CASA mix may keep cost ratios flat in the near term, the recovery in margins and improvement in operating leverage will help improve its cost ratios over the medium to long term. We thus expect the C/I and cost/asset ratio to improve to ~39.8% and 1.71%, respectively, by FY27E.

Exhibit 27: C/I stood at 40.2%; while cost/assets was ~1.7%



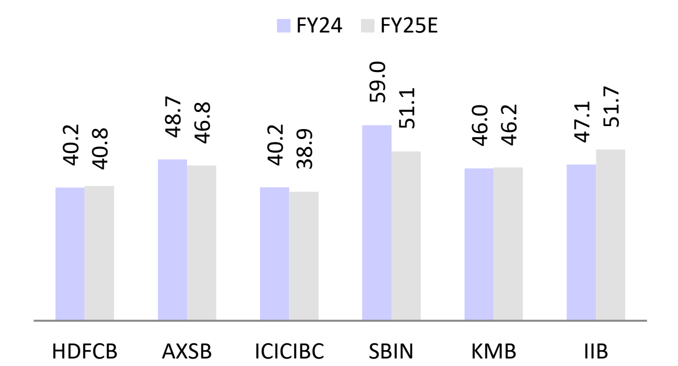
Source: Company, MOFSL

Exhibit 28: The bank has 210k employees & 9,143 branches



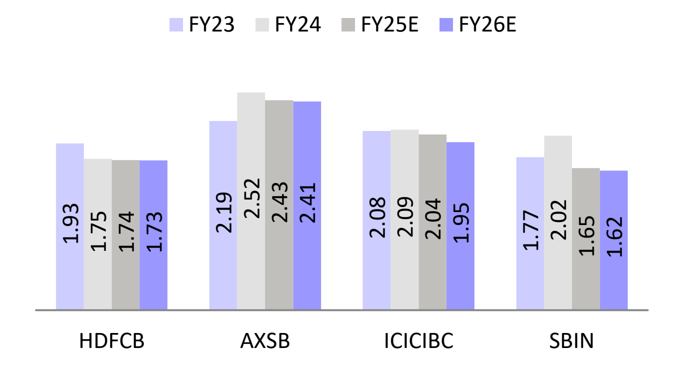
Source: Company, MOFSL

Exhibit 29: C/I ratio inched up due to margin crunch…



Source: Company, MOFSL

Exhibit 30: ...while cost/asset remained lower than peers



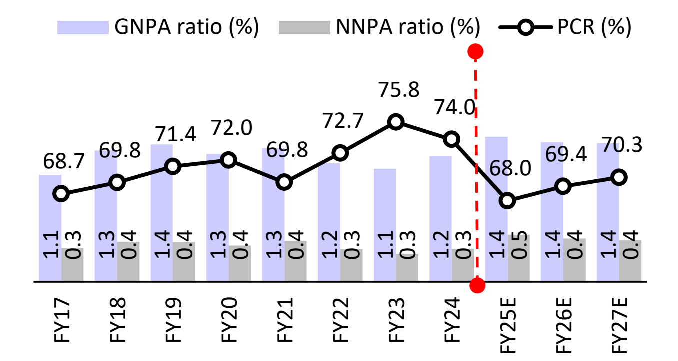
Source: Company, MOFSL

Asset quality stable; robust underwriting provides comfort

Credit costs under control at ~50bp

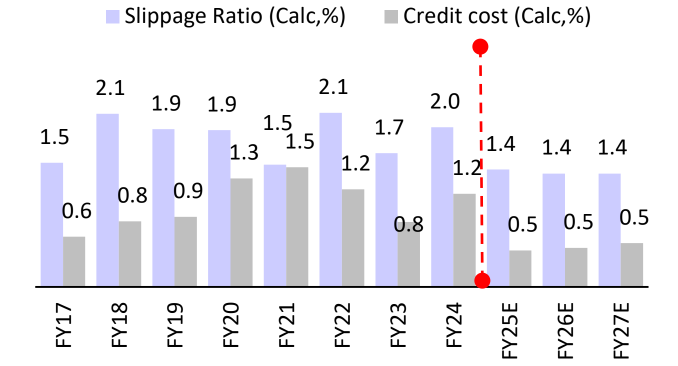
- HDFCB has consistently maintained a strong asset quality across business cycles, led by its robust underwriting practices and risk-calibrated lending approach. The bank has thus reported a GNPA/NNPA ratio of 1.4%/0.5% during 3QFY25. During the quarter, credit costs stood at ~50bp while overall slippages were in control at INR88b – 1.4% of avg. loans (INR65b ex-agri).
- The bank has adopted a prudent approach to provisioning, with a floating provision of INR124b (0.5% of loans) and a total specific provision of INR244b as of Dec'24. Additionally, the bank has set aside INR135b as a contingent provision (0.5% of loans), demonstrating its proactive stance in managing potential risks.
- Despite systemic stress in the unsecured lending space, the bank's unsecured portfolio remains resilient, with a retail GNPA ratio of ~0.8%. This performance is a result of the bank's early identification of stress signals and a cautious growth strategy in the unsecured segment.
- Asset quality across other sectors, including Corporate, Rural Banking (CRB), and Agriculture, continues to remain healthy. With its balanced approach to growth and risk, the bank is well-positioned to keep credit costs contained at ~50bp over the medium term.

Exhibit 31: Est. GNPA/NNPA ratio at 1.4%/0.5% in FY27



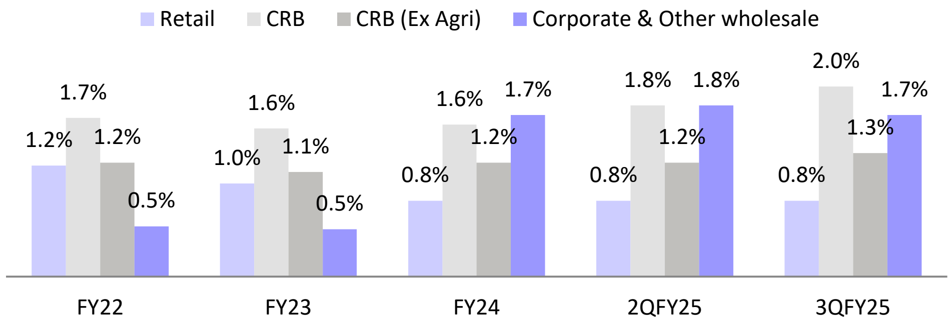
Source: Company, MOFSL

Exhibit 32: Slippage ratio/credit costs to stay under control



Source: Company, MOFSL

Exhibit 33: Asset quality trends across segments



Source: MOFSL, Company

Valuation and view: Reiterate BUY with a TP of INR2,050

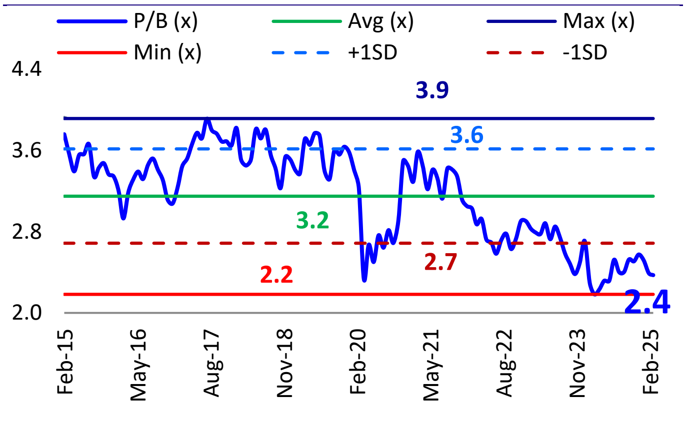
HDFCB has intentionally slowed down its business growth and has maintained a healthy pace of liability accretion amid a very challenging macro environment. The bank has been delivering a resilient performance on asset quality supported by its robust underwriting and strong understanding of market cycles. Over the past few quarters, the margins have remained within a narrow range aided by improving asset mix and retirement of high-cost borrowings, though the CASA mix continues to remain under pressure. Asset quality remains broadly stable with PCR at ~70%.

- The bank holds a healthy pool of provisions (floating + contingent) at INR259b/ 1.0% of loans. While management has not given any specific guidance on the C/D ratio, it has indicated that it will actively focus on bringing the ratio down at an accelerated pace.
- Consequently, we have factored in loan growth of 9.5%/13% over FY26/FY27E, while deposit CAGR is likely to sustain at ~15%. However, the gradual retirement of high-cost borrowings, along with an improvement in operating leverage, will aid calibrated expansion in RoA over the coming years.
- We thus estimate HDFCB to deliver FY27E RoA/RoE of 1.8%/14.2%. **We reiterate our BUY rating on the stock with a TP of INR2,050 (premised on 2.3x FY27E ABV + INR290 for subsidiaries).**

Exhibit 34: Our SoTP-based target price

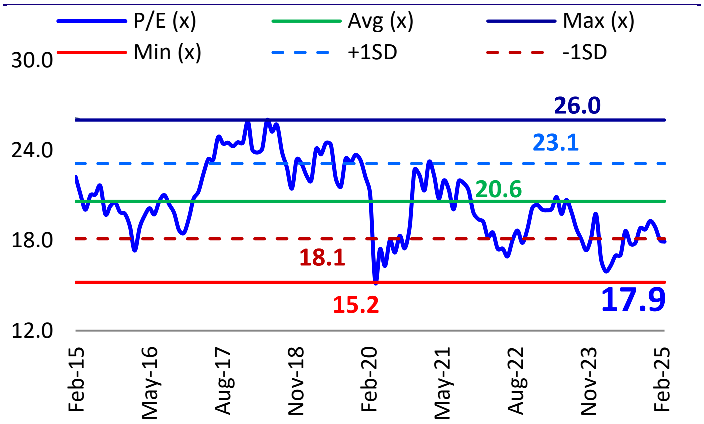
	Stake (%)	Proportionate Value INR b	Value USD b	Per Share INR	% of Total	Rationale
HDFC Bank		**13,376.3**	**160.2**	**1,761**	**85.9**	**2.3x FY27E ABV**
HDB Financial Ser	94.6	884.1	10.6	116	5.7	3.8x FY27E Net worth
HDFC Securities	95.1	317.2	3.8	42	2.0	17x FY27E PAT
HDFC Life Insurance	50.4	986.7	11.8	130	6.3	2.6x FY27E EV
HDFC Ergo General Insurance	50.5	140.9	1.7	19	0.9	24x FY27E PAT
HDFC AMC	52.6	421.8	5.1	56	2.7	25x FY27E PAT
Total Value of Subs		**2,750.8**	**32.9**	**362**	**17.7**	
Less: 20% holding Disc		550.2	6.6	72	3.5	
Value of Subs (Post Holding Disc)		**2,200.6**	**26.4**	**290**	**14.1**	
Target Price		**15,577.0**	**186.6**	**2,050**		

Exhibit 35: One-year forward P/B



Source: MOFSL, Company

Exhibit 36: One-year forward P/E



Source: MOFSL, Company

Exhibit 37: DuPont Analysis: Return ratios to remain modest

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	6.70	7.13	7.59	7.72	7.52	7.41
Interest Expense	2.92	3.30	4.40	4.52	4.39	4.19
Net Interest Income	**3.77**	**3.83**	**3.19**	**3.20**	**3.13**	**3.22**
- Core Fee Income	1.22	1.24	0.98	0.70	0.76	0.79
- Trading and others	0.33	0.13	0.46	0.53	0.54	0.54
Non-Interest income	**1.55**	**1.38**	**1.45**	**1.23**	**1.29**	**1.32**
Total Income	**5.32**	**5.21**	**4.63**	**4.43**	**4.42**	**4.54**
Operating Expenses	**1.96**	**2.10**	**1.86**	**1.81**	**1.82**	**1.81**
- Employee cost	0.63	0.68	0.65	0.66	0.65	0.65
- Others	1.33	1.42	1.21	1.15	1.17	1.16
Operating Profits	**3.36**	**3.11**	**2.77**	**2.62**	**2.61**	**2.74**
Core operating Profits	**3.03**	**2.97**	**2.31**	**2.09**	**2.07**	**2.20**
Provisions	**0.79**	**0.53**	**0.69**	**0.30**	**0.32**	**0.36**
PBT	**2.57**	**2.58**	**2.08**	**2.32**	**2.29**	**2.37**
Tax	0.63	0.63	0.30	0.55	0.56	0.58
RoA	**1.94**	**1.95**	**1.79**	**1.77**	**1.73**	**1.79**
Leverage (x)	8.6	8.7	8.2	8.1	7.9	7.9
RoE	**16.7**	**17.0**	**14.6**	**14.3**	**13.7**	**14.2**

Financials and valuations

Income Statement (INRb)

Y/E March (INR b)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	1,277.5	1,615.9	2,583.4	2,910.8	3,101.8	3,399.5
Interest Expense	557.4	747.4	1,498.1	1,703.8	1,810.7	1,921.2
Net Interest Income	**720.1**	**868.4**	**1,085.3**	**1,207.0**	**1,291.1**	**1,478.3**
- growth (%)	11.0	20.6	25.0	11.2	7.0	14.5
Non Interest Income	295.1	312.1	492.4	462.9	532.3	606.8
Total Income	**1,015.2**	**1,180.6**	**1,577.7**	**1,669.9**	**1,823.4**	**2,085.1**
- growth (%)	12.7	16.3	33.6	5.8	9.2	14.4
Operating Expenses	374.4	476.5	633.9	681.5	748.7	829.9
Pre Provision Profits	**640.8**	**704.0**	**943.9**	**988.4**	**1,074.6**	**1,255.2**
- growth (%)	11.7	9.9	34.1	4.7	8.7	16.8
Core PPOP	**601.7**	**663.2**	**903.9**	**917.1**	**995.6**	**1,165.7**
Growth (%)	9.6	10.2	36.3	1.5	8.6	17.1
Provisions	150.6	119.2	234.9	112.8	131.9	167.3
PBT	**490.2**	**584.9**	**709.0**	**875.6**	**942.7**	**1,087.9**
Tax	120.5	143.8	100.8	207.5	231.0	266.5
Tax Rate (%)	24.6	24.6	14.2	23.7	24.5	24.5
PAT	**369.6**	**441.1**	**608.1**	**668.1**	**711.8**	**821.4**
Growth (%)	18.8	19.3	37.9	9.9	6.5	15.4

Balance Sheet

Y/E March (INR b)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	5.5	5.6	7.6	7.6	7.6	7.6
Reserves & Surplus	2,395.4	2,796.4	4,394.9	4,911.0	5,463.2	6,125.1
Net Worth	**2,400.9**	**2,802.0**	**4,402.5**	**4,918.6**	**5,470.8**	**6,132.7**
Deposits	15,592.2	18,833.9	23,797.9	27,367.5	31,472.7	36,225.0
Growth (%)	16.8	20.8	26.4	15.0	15.0	15.1
of which CASA Dep	7,510.5	8,359.9	9,087.6	9,222.9	10,889.5	13,149.7
Growth (%)	22.0	11.3	8.7	1.5	18.1	20.8
Borrowings	1,848.2	2,067.7	6,621.5	5,360.3	4,542.6	4,093.6
Other Liabilities & Prov.	844.1	957.2	1,354.4	1,557.5	1,791.2	2,059.8
Total Liabilities	**20,685.4**	**24,660.8**	**36,176.2**	**39,204.0**	**43,277.2**	**48,511.2**
Current Assets	1,523.3	1,937.7	2,191.5	2,552.8	2,665.1	2,822.3
Investments	4,555.4	5,170.0	7,024.1	8,429.0	9,777.6	11,048.7
Growth (%)	2.7	13.5	35.9	20.0	16.0	13.0
Loans	13,688.2	16,005.9	24,848.6	25,792.9	28,243.2	31,914.8
Growth (%)	20.8	16.9	55.2	3.8	9.5	13.0
Fixed Assets	60.8	80.2	114.0	136.8	160.0	184.0
Other Assets	857.7	1,467.1	1,998.0	2,292.6	2,431.3	2,541.3
Total Assets	**20,685.4**	**24,660.8**	**36,176.2**	**39,204.0**	**43,277.2**	**48,511.2**

Asset Quality

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
GNPA (INR b)	161.4	180.2	311.7	373.1	393.2	440.8
NNPA (INR b)	44.1	43.7	80.9	119.5	120.3	130.9
Slippages (INR b)	268.6	245.4	402.6	366.9	378.3	421.1
GNPA Ratio (%)	1.2	1.1	1.2	1.4	1.4	1.4
NNPA Ratio (%)	0.3	0.3	0.3	0.5	0.4	0.4
Slippage Ratio (%)	2.1	1.7	2.0	1.4	1.4	1.4
Credit Cost (%)	1.2	0.8	1.2	0.5	0.5	0.5
PCR (Excl Tech. write off) (%)	72.7	75.8	74.0	68.0	69.4	70.3

Source: Company, MOSLE

Financials and valuations

Ratios

Y/E March (INR b)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield & Cost Ratios (%)						
Avg. Yield-Earning Assets	**7.4**	**8.0**	**8.4**	**8.7**	**8.4**	**8.2**
Avg. Yield on loans	7.9	8.6	8.8	9.2	9.0	8.8
Avg. Yield on Invt	5.8	6.5	6.8	7.0	6.9	6.9
Avg. Cost-Int. Bear. Liab.	**3.5**	**3.9**	**5.3**	**5.4**	**5.3**	**5.0**
Avg. Cost of Deposits	3.4	3.6	4.7	5.2	5.1	-
Interest Spread	**3.9**	**4.1**	**3.2**	**3.3**	**3.2**	**3.2**
Net Interest Margin	**3.9**	**4.1**	**3.4**	**3.4**	**3.3**	**3.4**
Capitalisation Ratios (%)						
CAR	18.7	19.3	18.8	20.7	20.9	20.5
Tier I	17.7	17.1	16.8	18.2	18.5	18.3
- CET-1	16.7	16.4	16.3	17.9	18.4	18.4
Tier II	1.0	2.1	2.0	2.6	2.4	2.2
Business Ratios (%)						
Loans/Deposit	87.8	85.0	104.4	94.2	89.7	88.1
CASA Ratio	48.2	44.4	38.2	33.7	34.6	36.3
Cost/Assets	1.8	1.9	1.8	1.7	1.7	1.7
Cost/Total Income	36.9	40.4	40.2	40.8	41.1	39.8
Cost/Core Income	38.4	41.8	41.2	42.6	42.9	41.6
Staff Cost/Total Expense	32.1	32.6	35.1	36.4	35.8	35.8
Int. Expense/Int.Income	43.6	46.3	58.0	58.5	58.4	56.5
Fee Income/Total Income	22.9	23.9	21.2	15.7	17.1	17.3
Other Inc./Total Income	29.1	26.4	31.2	27.7	29.2	29.1
Efficiency Ratios (INRm)						
Employee per branch (in nos)	22.3	22.1	24.4	24.7	24.4	24.2
Staff cost per employee (INR m)	0.8	0.9	1.0	1.0	1.0	1.0
CASA per branch (INR m)	1,184	1,069	1,040	942	985	1,052
Deposits per branch (INR m)	2,459	2,408	2,723	2,796	2,846	2,899
Bus. per Employee (INR m)	207	201	228	220	221	225
Profit per Employee (INR m)	2.6	2.5	2.8	2.8	2.6	2.7

Valuation

RoE	16.7	17.0	14.6	14.3	13.7	14.2
RoA	1.9	1.9	1.8	1.8	1.7	1.8
RoRWA	2.8	2.9	1.7	2.7	2.7	2.7
Book Value (INR)	433	502	580	647	720	807
Growth (%)	17.2	16.0	15.4	11.7	11.2	12.1
Price-BV (x)	**3.9**	**3.4**	**2.9**	**2.6**	**2.3**	**2.1**
Adjusted BV (INR)	420	490	555	616	686	769
Price-ABV (x)	**4.0**	**3.4**	**3.0**	**2.7**	**2.5**	**2.2**
EPS (INR)	66.8	79.3	80.0	87.9	93.7	108.1
Growth (%)	18.1	18.6	1.0	9.9	6.5	15.4
Price-Earnings (x)	**25.3**	**21.3**	**21.1**	**19.2**	**18.0**	**15.6**
Price-Earnings (x) - Adj. Subs	**20.9**	**17.6**	**17.5**	**15.9**	**14.9**	**12.9**
Dividend Per Sh (INR)	15.5	19.0	19.0	20.0	21.0	21.0
Dividend Yield (%)	**0.9**	**1.1**	**1.1**	**1.2**	**1.2**	**1.2**

Source: Company, MOFSL

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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