

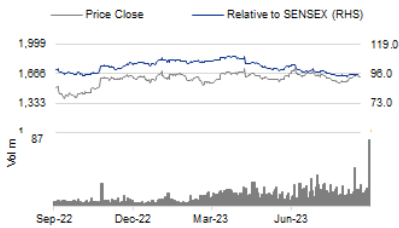
India

ADD (no change)

Consensus ratings*: Buy 45 Hold 2 Sell 0	
Current price:	Rs1,629
Target price:	Rs2,000
Previous target:	Rs2,000
Up/downside:	22.8%
InCred Research / Consensus:	-0.8%
Reuters:	
Bloomberg:	HDFCB IN
Market cap:	US\$169,952m
	Rs12,341,040m
Average daily turnover:	US\$426.9m
	Rs31001.0m
Current shares o/s:	5,533.2m
Free float:	70.5%
*Source: Bloomberg	

Key changes in this note

- Wholesale book NPAs of HDFC witnessed a spurt to ~6.7% in Jul 2023 against ~2.9% in Mar 2023. The clean-up may keep asset quality of HDFC Bank volatile in the near term.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.4	1.6	8.4
Relative (%)	(1.6)	(5.1)	(5.1)

Analyst(s)



Jignesh SHIAL

T (91) 22 4161 1547
E jignesh.shial@incredcapital.com

Mayank AGARWAL

T (91) 22 4161 0000
E mayank.agarwal@incredcapital.com

HDFC Bank

Takeaways from Analyst Day

- HDFC Bank sees margin pressure of ~30-40bp in FY24F amid excess liquidity of Rs1tr post-HDFC merger, which should normalize post liquidity utilization.
- Wholesale book NPAs of HDFC saw a spurt to ~6.7% in Jul 2023 vs. ~2.9% in Mar 2023. The clean-up to keep HDFC Bank's near-term asset quality volatile.
- These are short-term concerns, and we expect normalized RoA by FY25F. Superior growth led by competitive advantage & improved penetration is key.

Margins in FY24F to remain under pressure due to excess liquidity

HDFC Bank has indicated excess liquidity of Rs1tr on its balance sheet which, along with lower spreads earned on HDFC's portfolio, will suppress its margins by ~30-40bp to 3.9%-4.0% in FY24F. However, gradual utilization of this liquidity over the next three-to-four quarters is likely to normalize the margin trajectory of HDFC Bank. The lower spreads of HDFC will be offset by the lower cost-to-opex ratio and lower credit cost in its mortgage book, resulting in a RoA profile of ~2.0% for the merged entity post liquidity drawdown.

Non-individual loan book of HDFC to be area of concern in near term

Non-individual loan book of HDFC (primarily lending to developers and corporates) stood at Rs1.1tr as of 1 Jul 2023, declining by 18% yoy due to the realignment strategy of HDFC Bank, as per its standards. HDFC Bank's management has indicated pressure on this portfolio as NPAs from the outstanding loans increased to ~6.7% as of 1 Jul 2023 against ~2.9% in Mar 2023. The likely clean-up of this portfolio may keep headline non-performing assets or NPAs volatile for HDFC Bank, the merged entity, at least in the near term.

Transition to IGAAP will not have any material impact on net worth

HDFC Bank has merged HDFC (parent entity) with itself with effect from 1 Jul 2023 and recognized the net worth of its parent, as per IGAAP. HDFC Bank added Rs1,118bn of HDFC's net worth to its capital after adjusting for the cost of acquisition, credit policy harmonization and deferred tax liability reserve. The total net worth of the combined entity stood at Rs3,914bn as of 1 Jul 2023.

Outlook & valuation

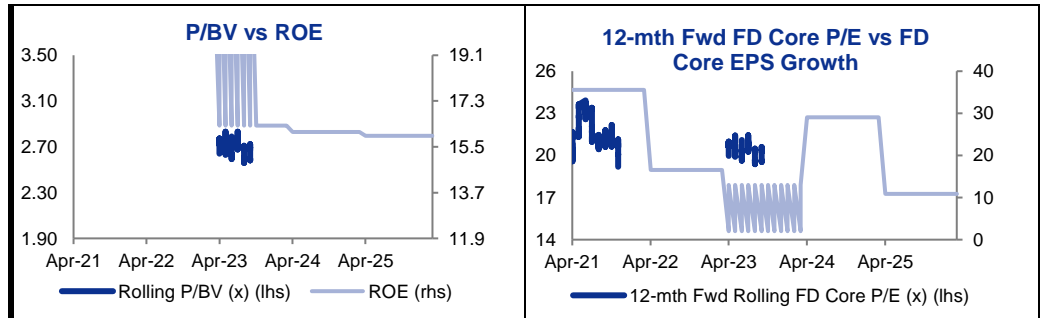
We are concerned about the probable margin compression and volatility in the asset quality profile of HDFC Bank in the near term. However, the healthy provision coverage provides some relief. We believe HDFC Bank has enormous growth opportunity post-merger of HDFC amid the bank's competitive edge in mortgage financing business as well as a probable cross-selling opportunity to existing HDFC customers. We also appreciate HDFC Bank's expanded presence, which will allow it to maintain market penetration-led growth. HDFC Bank remains our top stock pick with a target price of Rs2,000 (~2% plus RoA & 16% RoE). Retain ADD rating on the stock. We have valued the standalone bank at ~2.7x FY25F ABV and its subsidiaries at Rs200/share. Downside risks: Slower-than-expected growth and a weak profitability trend post-HDFC merger.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25A	Mar-26A
Net Interest Income (Rsm)	720,096	868,422	1,218,236	1,559,739	1,752,234
Total Non-Interest Income (Rsm)	295,099	312,148	356,627	408,824	471,400
Operating Revenue (Rsm)	1,015,195	1,180,571	1,574,864	1,968,563	2,223,634
Total Provision Charges (Rsm)	(150,618)	(119,197)	(169,682)	(227,628)	(275,714)
Net Profit (Rsm)	369,614	441,087	598,361	772,266	856,154
Core EPS (Rs)	66.65	79.05	80.64	104.07	115.38
Core EPS Growth	18%	19%	2%	29%	11%
FD Core P/E (x)	24.44	20.61	20.20	15.65	14.12
DPS (Rs)	15.50	25.00	25.00	30.00	35.00
Dividend Yield	0.95%	1.53%	1.53%	1.84%	2.15%
BVPS (Rs)	433.0	502.2	610.0	684.1	764.5
P/BV (x)	3.76	3.24	2.67	2.38	2.13
ROE	16.7%	17.0%	16.3%	16.1%	15.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24A	Mar-25A	Mar-26A
Net Interest Income	720,096	868,422	1,218,236	1,559,739	1,752,234
Total Non-Interest Income	295,099	312,148	356,627	408,824	471,400
Operating Revenue	1,015,195	1,180,571	1,574,864	1,968,563	2,223,634
Total Non-Interest Expenses	(358,424)	(459,980)	(597,974)	(701,716)	(795,602)
Pre-provision Operating Profit	640,773	704,050	962,212	1,250,498	1,409,693
Total Provision Charges	(150,618)	(119,197)	(169,682)	(227,628)	(275,714)
Operating Profit After Provisions	490,155	584,853	792,531	1,022,869	1,133,979
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	490,155	584,853	792,531	1,022,869	1,133,979
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	490,155	584,853	792,531	1,022,869	1,133,979
Exceptional Items					
Pre-tax Profit	490,155	584,853	792,531	1,022,869	1,133,979
Taxation	(120,541)	(143,766)	(194,170)	(250,603)	(277,825)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	369,614	441,087	598,361	772,266	856,154
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	369,614	441,087	598,361	772,266	856,154
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24A	Mar-25A	Mar-26A
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	86.4%	86.3%	100.6%	112.4%	110.6%
Avg Liquid Assets/Avg Assets	96.3%	94.6%	94.8%	95.7%	96.0%
Avg Liquid Assets/Avg IEAs	108.0%	108.8%	105.4%	102.7%	102.5%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	1.20%	0.80%	0.81%	0.80%	0.83%
Provision Charge/Avg Assets	0.79%	0.53%	0.57%	0.61%	0.64%
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-22A	Mar-23A	Mar-24A	Mar-25A	Mar-26A
Total Gross Loans	13,688,209	16,005,859	26,071,148	30,500,832	35,708,596
Liquid Assets & Invst. (Current)	4,555,357	5,170,015	6,632,044	6,872,302	7,235,821
Other Int. Earning Assets					
Total Gross Int. Earning Assets	18,243,566	21,175,874	32,703,190	37,373,136	42,944,416
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	18,243,566	21,175,874	32,703,190	37,373,136	42,944,416
Intangible Assets					
Other Non-Interest Earning Assets	857,678	1,467,125	1,459,774	1,558,728	1,668,195
Total Non-Interest Earning Assets	918,514	1,547,291	1,547,956	1,655,728	1,774,895
Cash And Marketable Securities	1,523,269	1,937,651	987,848	919,335	1,112,930
Long-term Investments					
Total Assets	20,685,350	24,660,814	35,238,996	39,948,196	45,832,240
Customer Interest-Bearing Liabilities	15,592,174	18,833,946	23,008,364	27,301,350	32,540,256
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	17,440,346	20,901,602	29,441,082	33,555,684	38,638,016
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	844,075	957,223	1,271,190	1,316,139	1,521,413
Total Liabilities	18,284,422	21,858,824	30,712,272	34,871,824	40,159,428
Shareholders Equity	2,400,929	2,801,990	4,526,722	5,076,374	5,672,812
Minority Interests					
Total Equity	2,400,929	2,801,990	4,526,722	5,076,374	5,672,812

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25A	Mar-26A
Total Income Growth	11.0%	20.6%	40.3%	28.0%	12.3%
Operating Profit Growth	12.0%	9.7%	35.6%	29.7%	12.7%
Pretax Profit Growth	18%	19%	36%	29%	11%
Net Interest To Total Income	70.9%	73.6%	77.4%	79.2%	78.8%
Cost Of Funds	3.47%	3.90%	4.44%	3.89%	3.61%
Return On Interest Earning Assets	7.5%	8.2%	8.7%	7.9%	7.6%
Net Interest Spread	4.04%	4.30%	4.23%	4.06%	4.00%
Net Interest Margin (Avg Deposits)	4.98%	5.05%	5.82%	6.20%	5.86%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	24%	17%	18%	18%	20%
Interest Return On Average Assets	3.77%	3.83%	4.07%	4.15%	4.09%
Effective Tax Rate	24.6%	24.6%	24.5%	24.5%	24.5%
Net Dividend Payout Ratio	23.4%	31.7%	31.0%	28.8%	30.3%
Return On Average Assets	1.94%	1.95%	2.00%	2.05%	2.00%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.