



India

ADD (no change)

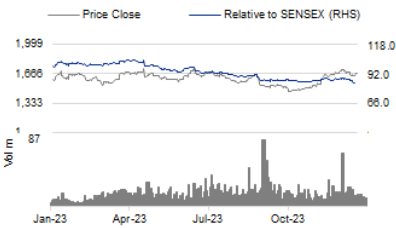
Consensus ratings*: Buy 45 Hold 5 Sell 0

| | |
|------------------------------|-------------------------------|
| Current price: | Rs1,679 |
| Target price: | Rs2,000 |
| Previous target: | Rs2,000 |
| Up/downside: | 19.1% |
| InCred Research / Consensus: | 2.3% |
| Reuters: | HDBK.NS |
| Bloomberg: | HDFCB IN |
| Market cap: | US\$153,463m Rs12,748,920m |
| Average daily turnover: | US\$364.4m Rs30274.1m |
| Current shares o/s: | 7,560.9m |
| Free float: | 70.5% |

*Source: Bloomberg

Key changes in this note

The trend in deposit growth remained weak (+1.9% qoq), as management avoids wholesale deposits amid their volatile nature as well as pricing issues.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|--------|
| Absolute (%) | 1.4 | 9.0 | 4.4 |
| Relative (%) | (0.9) | (1.0) | (13.4) |

| Major shareholders | % held |
|--------------------|--------|
| FPI | 52.0 |
| ADR | 14.0 |
| SBI-ETF Nifty 50 | 5.7 |

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HDFC Bank

The margin management story

- HDFC Bank posted a healthy 3Q PAT of Rs16.3bn amid steady qoq margins while the treasury gains were utilized for a contingent provision of Rs12bn.
- The trend in deposit growth remained weak (+1.9% qoq) as management avoids wholesale deposits amid their volatile nature as well as pricing issues.
- We are confident of credit growth amid improved penetration & deposits are also manageable at a price. Retain high conviction ADD with a TP of Rs2,000.

Managing deposit growth and margins remains a vital task

HDFC Bank reported weak 3QFY24 deposit growth of ~1.9% sequentially as its management preferred to avoid wholesale deposits amid elevated pricing and volatile maturity. However, with the liquidity coverage ratio at ~110% and the credit-deposit ratio at ~108%, deposit momentum is much needed but the surge in high-ticket deposits may keep margins under pressure. Thus, managing deposits and margins is the key task for HDFC Bank in the coming quarters. We also believe that the bank may accelerate growth in better-yield unsecured loans to compensate for margins. We will keep a close eye on the margin profile of the bank.

Granularity in growth in advances is encouraging

HDFC Bank reported a growth in advances of ~4.9% qoq to Rs24.5tr as of Dec 2023-end. The growth was across segments, with retail loans growing by ~3.3% qoq, commercial & rural banking growing ~6.7% qoq to Rs7.7tr while the wholesale book remained flat sequentially. We are witnessing credit demand becoming sporadic and mainly driven by penetration-led expansion, which HDFC Bank is quite capable of managing due to its rapid branch expansion, mainly in semi-urban/rural areas.

Asset quality profile stable: prudent provisioning is in the DNA

HDFC Bank reported a nominal decline in its headline non-performing assets or NPAs, with a sequential dip in gross NPAs of ~8bp to ~1.26% whereas net NPAs improved by ~4bp sequentially to ~0.31%. The overall slippage was at Rs78bn, against Rs7bn last quarter, indicating that the major merger-related pain has already been recognized. The company provided Rs12bn during the quarter against its alternate investment fund or AIF exposure on a prudent basis, despite a Rs5bn profit on its books.

Outlook & valuation

We believe that elevated cost of deposits and pressure on margins would be common issue for all banks in the coming quarters, but we believe HDFC Bank is better placed due to its improved penetration providing portfolio granularity and command over loan pricing. We expect HDFC Bank to be a ~2% RoA and ~16% RoE story. HDFC Bank is our high conviction ADD-rated stock with a target price of Rs2,000. We have valued the standalone bank at ~2.7x FY25F BV and its subsidiaries at Rs200/share. Slow growth and weak margins are key downside risks to our thesis.

Financial Summary

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Net Interest Income (Rsm) | 720,096 | 868,422 | 1,101,865 | 1,493,691 | 1,739,161 |
| Total Non-Interest Income (Rsm) | 295,099 | 312,148 | 413,168 | 470,474 | 541,970 |
| Operating Revenue (Rsm) | 1,015,195 | 1,180,571 | 1,515,032 | 1,964,165 | 2,281,132 |
| Total Provision Charges (Rsm) | (150,618) | (119,197) | (129,814) | (180,180) | (208,419) |
| Net Profit (Rsm) | 369,614 | 441,087 | 619,823 | 776,266 | 885,249 |
| Core EPS (Rs) | 66.65 | 79.05 | 83.53 | 104.61 | 119.30 |
| Core EPS Growth | 18% | 19% | 6% | 25% | 14% |
| FD Core P/E (x) | 25.19 | 21.24 | 20.10 | 16.05 | 14.08 |
| DPS (Rs) | 15.50 | 25.00 | 25.00 | 30.00 | 35.00 |
| Dividend Yield | 0.92% | 1.49% | 1.49% | 1.79% | 2.08% |
| BVPS (Rs) | 433.0 | 502.2 | 612.3 | 686.2 | 769.6 |
| P/BV (x) | 3.88 | 3.34 | 2.74 | 2.45 | 2.18 |
| ROE | 16.7% | 17.0% | 16.9% | 16.1% | 16.4% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

| Particulars (Rs m) | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | YoY (%) | QoQ (%) |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|
| Net Interest Income | 1,94,814 | 2,10,212 | 2,29,878 | 2,33,518 | 2,35,991 | 2,73,852 | 2,84,713 | 23.9% | 4.0% |
| NIM (% of AUM) | 4.2% | 4.3% | 4.6% | 4.5% | 4.4% | 3.7% | 3.7% | | |
| Fee-Based Income | 63,882 | 75,956 | 84,998 | 87,312 | 92,299 | 1,07,078 | 1,11,370 | 31.0% | 4.0% |
| Operating Expenses | 1,05,018 | 1,12,246 | 1,24,636 | 1,34,621 | 1,40,569 | 1,53,992 | 1,59,611 | 28.1% | 3.6% |
| Operating Profit | 1,53,678 | 1,73,922 | 1,90,241 | 1,86,209 | 1,87,720 | 2,26,939 | 2,36,473 | 24.3% | 4.2% |
| Provisions | 31,877 | 32,401 | 28,064 | 26,854 | 28,600 | 29,038 | 42,166 | 50.2% | 45.2% |
| Exceptional Items | - | - | - | - | - | - | - | | |
| PBT | 1,21,801 | 1,41,520 | 1,62,176 | 1,59,355 | 1,59,120 | 1,97,901 | 1,94,307 | 19.8% | -1.8% |
| Tax | -29,841 | -35,463 | -39,581 | -38,881 | -39,602 | -38,139 | -30,581 | -22.7% | -19.8% |
| Tax rate (%) | 24.5% | 25.1% | 24.4% | 24.4% | 24.9% | 19.3% | 15.7% | | |
| PAT | 91,960 | 1,06,058 | 1,22,595 | 1,20,475 | 1,19,518 | 1,59,761 | 1,63,725 | 33.5% | 2.5% |
| Advances (Rs bn) | 13,951 | 14,799 | 15,068 | 16,006 | 16,157 | 23,312 | 24,461 | 62.3% | 4.9% |
| Deposits (Rs bn) | 16,048 | 16,734 | 17,332 | 18,834 | 19,131 | 21,729 | 22,140 | 27.7% | 1.9% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

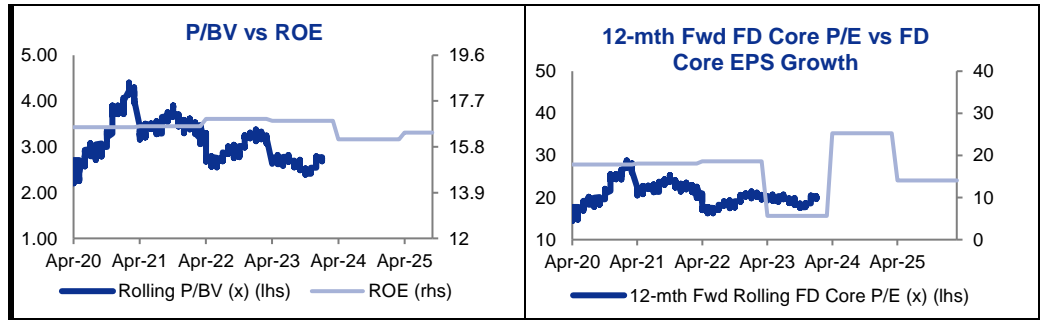
| Y/E Mar (Rs m) | FY24F (merged) | | | FY25F (merged) | | | FY26F (merged) | | |
|---------------------|----------------|-----------|----------|----------------|-----------|----------|----------------|-----------|----------|
| | Earlier | Revised | % change | Earlier | Revised | % change | Earlier | Revised | % change |
| Net Interest Income | 11,11,369 | 11,01,865 | -0.9% | 15,17,710 | 14,93,691 | -1.6% | 17,00,134 | 17,39,161 | 2.3% |
| Non-Interest Income | 4,10,275 | 4,13,168 | 0.7% | 4,70,877 | 4,70,474 | -0.1% | 5,42,538 | 5,41,970 | -0.1% |
| PPOP | 9,01,639 | 8,95,027 | -0.7% | 12,32,769 | 12,08,347 | -2.0% | 13,66,871 | 13,80,934 | 1.0% |
| PAT | 6,06,188 | 6,19,823 | 2.2% | 7,96,337 | 7,76,266 | -2.5% | 8,76,583 | 8,85,249 | 1.0% |
| EPS (Rs) | 80.2 | 82.0 | 2.2% | 105.3 | 102.7 | -2.5% | 115.9 | 117.1 | 1.0% |
| BV (Rs) | 596.0 | 597.8 | 0.3% | 670.8 | 670.0 | -0.1% | 751.1 | 751.4 | 0.0% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings conference-call highlights

- Retail deposits grew by over Rs530bn while non-retail deposits declined by Rs118bn during the quarter.
- The branch network stood at 8,091 outlets as of Dec 2023-end, with 146 new branches added during the quarter.
- The rural business has been expanded to 210,000 villages, a growth of 60,000 villages over last year.
- LCR for the quarter is at 110%, capital adequacy ratio at 18.4% and Tier-1 capital ratio at 16.8%
- The GNPA ratio is at 1.26% compared to 1.34% last quarter and 1.23% last year while the core GNPA ratio is at 1.11%. The net NPA ratio for the quarter stood at 0.31% vs. 0.35% last quarter.
- The slippage during the quarter was about Rs70bn vs. Rs78bn last quarter. The recoveries and upgrades were at Rs45bn.
- Total provision during the quarter includes an additional contingent provision of Rs12bn pertaining to investments in AIF on a prudent basis. The fair value of the AIF is up by Rs5bn, but the 100% provision has been made at book value.
- Gross advances stood at Rs24.7tr as of Dec 2023-end, indicating a sequential momentum of Rs1.1tr (+4.9%).
- Retail advances grew 3.3% qoq, primarily driven by strong performance in the mortgage business. Retail mortgage disbursements stood at Rs460bn during the quarter, up 18% over the previous year.
- The wholesale segment, excluding non-individual loans of HDFC, grew ~1.9% sequentially. Non-individual loans of HDFC aggregated to Rs0.99tr as compared to Rs1.03tr last quarter-end.
- Total deposits as of Dec 2023-end amounted to Rs22.1tr, comprising retail deposits which stood at ~84% of total deposits.
- Retail deposits grew by over Rs530bn during the quarter while non-retail deposits reduced by Rs118bn qoq, resulting in a total deposit growth of Rs411bn during the quarter.
- Current account deposits ended the quarter at Rs2.6tr, registering a growth of Rs80bn over the previous year. Savings deposits as of Dec 2023-end stood at Rs5.8tr, up by Rs99bn qoq, and by over Rs440bn yoy.

BY THE NUMBERS



Profit & Loss

| (Rsm) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|---|------------------|------------------|------------------|------------------|------------------|
| Net Interest Income | 720,096 | 868,422 | 1,101,865 | 1,493,691 | 1,739,161 |
| Total Non-Interest Income | 295,099 | 312,148 | 413,168 | 470,474 | 541,970 |
| Operating Revenue | 1,015,195 | 1,180,571 | 1,515,032 | 1,964,165 | 2,281,132 |
| Total Non-Interest Expenses | (358,424) | (454,096) | (593,427) | (737,898) | (880,358) |
| Pre-provision Operating Profit | 640,773 | 704,050 | 895,027 | 1,208,347 | 1,380,934 |
| Total Provision Charges | (150,618) | (119,197) | (129,814) | (180,180) | (208,419) |
| Operating Profit After Provisions | 490,155 | 584,853 | 765,213 | 1,028,167 | 1,172,515 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Operating EBIT (incl Associates) | 490,155 | 584,853 | 765,213 | 1,028,167 | 1,172,515 |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 490,155 | 584,853 | 765,213 | 1,028,167 | 1,172,515 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 490,155 | 584,853 | 765,213 | 1,028,167 | 1,172,515 |
| Taxation | (120,541) | (143,766) | (145,390) | (251,901) | (287,266) |
| Consolidation Adjustments & Others | | | | | |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 369,614 | 441,087 | 619,823 | 776,266 | 885,249 |
| Minority Interests | | | | | |
| Pref. & Special Div | | | | | |
| FX And Other Adj. | | | | | |
| Net Profit | 369,614 | 441,087 | 619,823 | 776,266 | 885,249 |
| Recurring Net Profit | | | | | |

Balance Sheet Employment

| (Rsm) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|--|---------------|---------------|---------------|---------------|---------------|
| Gross Loans/Cust Deposits | | | | | |
| Avg Loans/Avg Deposits | 86.4% | 86.3% | 100.2% | 110.3% | 106.7% |
| Avg Liquid Assets/Avg Assets | 96.3% | 94.6% | 94.6% | 95.4% | 95.7% |
| Avg Liquid Assets/Avg IEAs | 108.0% | 108.8% | 104.8% | 102.9% | 104.4% |
| 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% | 0.62% | 0.65% | 0.65% |
| Provision Charge/Avg Assets | 0.79% | 0.53% | 0.43% | 0.48% | 0.48% |
| Total Write Offs/Average Assets | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| (Rsm) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Gross Loans | 13,688,209 | 16,005,859 | 25,703,714 | 29,609,200 | 34,189,632 |
| Liquid Assets & Invst. (Current) | 4,555,357 | 5,170,015 | 7,188,523 | 7,397,359 | 7,731,035 |
| Other Int. Earning Assets | | | | | |
| Total Gross Int. Earning Assets | 18,243,566 | 21,175,874 | 32,892,236 | 37,006,560 | 41,920,668 |
| Total Provisions/Loan Loss Reserve | | | | | |
| Total Net Interest Earning Assets | 18,243,566 | 21,175,874 | 32,892,236 | 37,006,560 | 41,920,668 |
| Intangible Assets | | | | | |
| Other Non-Interest Earning Assets | 857,678 | 1,467,125 | 1,596,275 | 1,696,444 | 1,806,418 |
| Total Non-Interest Earning Assets | 918,514 | 1,547,291 | 1,684,457 | 1,793,444 | 1,913,119 |
| Cash And Marketable Securities | 1,523,269 | 1,937,651 | 681,978 | 1,372,103 | 2,063,204 |
| Long-term Investments | | | | | |
| Total Assets | 20,685,350 | 24,660,814 | 35,258,672 | 40,172,108 | 45,896,988 |
| Customer Interest-Bearing Liabilities | 15,592,174 | 18,833,944 | 22,810,486 | 27,342,504 | 32,441,398 |
| Bank Deposits | | | | | |
| Interest Bearing Liabilities: Others | | | | | |
| Total Interest-Bearing Liabilities | 17,440,346 | 20,901,600 | 29,584,608 | 33,935,104 | 38,875,456 |
| Banks Liabilities Under Acceptances | | | | | |
| Total Non-Interest Bearing Liabilities | 844,075 | 957,223 | 1,130,379 | 1,145,066 | 1,310,360 |
| Total Liabilities | 18,284,422 | 21,858,824 | 30,714,986 | 35,080,168 | 40,185,816 |
| Shareholders Equity | 2,400,929 | 2,801,990 | 4,543,685 | 5,091,938 | 5,711,172 |
| Minority Interests | | | | | |
| Total Equity | 2,400,929 | 2,801,990 | 4,543,685 | 5,091,938 | 5,711,172 |

| Key Ratios | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
| Total Income Growth | 11.0% | 20.6% | 26.9% | 35.6% | 16.4% |
| Operating Profit Growth | 12.0% | 10.6% | 26.9% | 33.1% | 14.2% |
| Pretax Profit Growth | 18% | 19% | 31% | 34% | 14% |
| Net Interest To Total Income | 70.9% | 73.6% | 72.7% | 76.0% | 76.2% |
| Cost Of Funds | 3.47% | 3.90% | 5.94% | 5.35% | 4.86% |
| Return On Interest Earning Assets | 7.5% | 8.2% | 9.6% | 9.1% | 8.9% |
| Net Interest Spread | 4.04% | 4.30% | 3.68% | 3.79% | 4.03% |
| Net Interest Margin (Avg Deposits) | 4.98% | 5.05% | 5.29% | 5.96% | 5.82% |
| Net Interest Margin (Avg RWA) | | | | | |
| Provisions to Pre Prov. Operating Profit | 24% | 17% | 15% | 15% | 15% |
| Interest Return On Average Assets | 3.77% | 3.83% | 3.68% | 3.96% | 4.04% |
| Effective Tax Rate | 24.6% | 24.6% | 19.0% | 24.5% | 24.5% |
| Net Dividend Payout Ratio | 23.4% | 31.7% | 30.7% | 29.4% | 30.0% |
| Return On Average Assets | 1.94% | 1.95% | 2.07% | 2.06% | 2.06% |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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| any other material conflict of interest at the time of publication of the research report or at the time of public appearance | NO | NO |
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| 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 |

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