



India

ADD (no change)

Consensus ratings*: Buy 44 Hold 5 Sell 0

Current price:	Rs1,531
Target price:	Rs2,000
Previous target:	Rs2,000
Up/downside:	30.6%
InCred Research / Consensus:	6.6%
Reuters:	HDBK.NS
Bloomberg:	HDFCB IN
Market cap:	US\$139,369m Rs11,633,150m
Average daily turnover:	US\$389.8m Rs32533.8m
Current shares o/s:	7,586.9m
Free float:	70.5%

*Source: Bloomberg

HDFC Bank

Growth certainty amid margin volatility

- HDFC Bank posted a healthy 4QFY24 PAT of Rs16.5bn amid steady qoq margins, while the one-off gains from Credila were used for a floating provision.
- The bank witnessed a sequential improvement in the LDR ratio to ~104% & LCR improved to ~115%, but the trend may stay volatile amid tight liquidity.
- Retain ADD with a TP of Rs2,000 as we are confident on growth outlook & feel margin volatility will adjust vs. improved operating leverage/low provisioning.

Deposit momentum picks up pace along with retail loan growth

HDFC Bank saw strong momentum in deposit growth at ~7.5% qoq to Rs23.8tr in 4QFY24, whereby the retail traction was healthy (+6.9% qoq) but wholesale deposits witnessed dominance (+10.9% qoq). Advances grew at a relatively slower pace of ~1.6% qoq to Rs24.8tr, with a healthy momentum in retail loans (+3.5% qoq) and weak corporate lending (-2.2% qoq) due to unfavourable pricing. The bank witnessed a sequential improvement in the LDR ratio to ~104% (~115% in 3QFY24) whereas the LCR ratio improved to ~115% (~110% in 3QFY24) and may stay volatile in the current tight liquidity environment.

Resolute focus on better pricing led to steady NIM

Net interest margin or NIM was a tad up (+4bp qoq) at 3.44%, which was supported by healthy growth in high-yielding retail loans. The bank maintained its stance on chasing profitable growth and not participating in competitive pricing, which aided margins. There was a one-time gain on stake sale in HDFC Credila Financial Services of Rs73bn, which has been utilized to boost the floating provision by Rs109bn and pay one-time ex-gratia to employees amounting to Rs15bn.

Growth certainty amid near-term NIM volatility

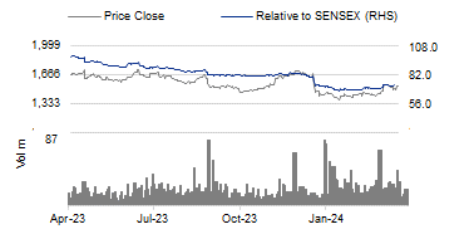
We believe HDFC Bank is in an advantageous position as its operating leverage comes into play with more branches maturing (~2,450 branches in the last 24 months) and slower branch addition going ahead. This will be aided by controlled credit costs with sturdy asset quality and added comfort from contingent and floating provisions (~109bp of total loans). NIM will be under pressure amid volatile deposit mobilization, repricing of high-cost borrowings, as well as likely priority sector lending or PSL shortfalls, which will be partially offset by repricing of fixed loans at increased rates and a rising share of low-cost CASA deposits, especially in rural/semi-urban areas. The bank enjoys a strong geographic foothold with a pan-India presence in semi-urban & rural areas. We believe it will continue to maintain its leadership position in lending and strengthen its position going ahead.

Outlook & valuation

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 an ~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 ~2.5x FY26F BV and its subsidiaries at Rs200/share. Slow growth and weak margins are key downside risks to our thesis.

Key changes in this note

- One-time gain on stake sale in HDFC Credila of Rs73bn (pre-tax) has been utilized to enhance floating provision by Rs109bn & pay ex-gratia to employees amounting to Rs15bn.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.0	3.5	(8.4)
Relative (%)	6.6	1.2	(25.2)

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

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Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	868,422	1,085,325	1,435,519	1,694,932	1,990,257
Total Non-Interest Income (Rsm)	312,148	492,410	563,158	641,016	719,454
Operating Revenue (Rsm)	1,180,571	1,577,735	1,998,676	2,335,948	2,709,710
Total Provision Charges (Rsm)	(119,197)	(234,921)	(202,655)	(246,963)	(302,704)
Net Profit (Rsm)	441,087	608,123	838,833	943,258	1,054,254
Core EPS (Rs)	79.05	80.05	110.42	124.16	277.55
Core EPS Growth	19%	1%	38%	12%	124%
FD Core P/E (x)	19.37	19.13	13.87	12.33	5.52
DPS (Rs)	25.00	19.50	35.00	35.00	40.00
Dividend Yield	1.63%	1.27%	2.29%	2.29%	2.61%
BVPS (Rs)	502.2	579.5	654.8	743.9	1,685.1
P/BV (x)	3.05	2.64	2.34	2.06	0.91
ROE	17.0%	16.9%	17.9%	17.8%	17.5%
% 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	4QFY24	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	2,90,768	24.5%	2.1%
NIM (% of AUM)	4.2%	4.3%	4.6%	4.5%	4.4%	3.7%	3.7%	3.7%		
Fee-Based Income	63,882	75,956	84,998	87,312	92,299	1,07,078	1,11,370	1,81,663	108.1%	63.1%
Operating Expenses	1,05,018	1,12,246	1,24,636	1,34,621	1,40,569	1,53,992	1,59,611	1,79,688	33.5%	12.6%
Operating Profit	1,53,678	1,73,922	1,90,241	1,86,209	1,87,720	2,26,939	2,36,473	2,92,742	57.2%	23.8%
Provisions	31,877	32,401	28,064	26,854	28,600	29,038	42,166	1,35,116	403.2%	220.4%
Exceptional Items	-	-	-	-	-	-	-	-		
PBT	1,21,801	1,41,520	1,62,176	1,59,355	1,59,120	1,97,901	1,94,307	1,57,626	-1.1%	-18.9%
Tax	-29,841	-35,463	-39,581	-38,881	-39,602	-38,139	-30,581	7,493	-119.3%	-124.5%
Tax rate (%)	24.5%	25.1%	24.4%	24.4%	24.9%	19.3%	15.7%	-4.8%		
PAT	91,960	1,06,058	1,22,595	1,20,475	1,19,518	1,59,761	1,63,725	1,65,119	37.1%	0.9%
Advances (Rs bn)	13,951	14,799	15,068	16,006	16,157	23,312	24,461	24,849	55.2%	1.6%
Deposits (Rs bn)	16,048	16,734	17,332	18,834	19,131	21,729	22,140	23,798	26.4%	7.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

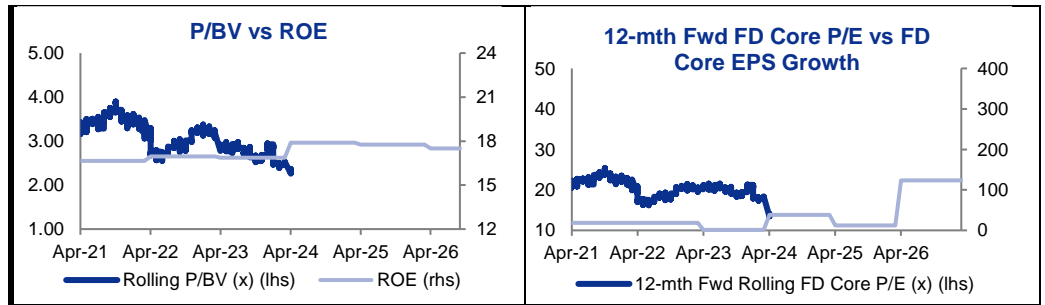
Y/E Mar (Rs m)	FY25F (merged)			FY26F (merged)			FY27F (introduced)		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	14,93,691	14,35,519	-3.9%	17,39,161	16,94,932	-2.5%	NA	19,90,257	NA
Non-Interest Income	4,70,474	5,63,158	19.7%	5,41,970	6,41,016	18.3%	NA	7,19,454	NA
PPOP	12,08,347	12,56,465	4.0%	13,80,934	14,64,070	6.0%	NA	16,99,067	NA
PAT	7,76,266	8,38,833	8.1%	8,85,249	9,43,258	6.6%	NA	10,54,254	NA
EPS (Rs)	102.7	110.6	7.7%	117.1	124.3	6.2%	NA	139.0	NA
BV (Rs)	670.0	653.0	-2.5%	751.4	741.8	-1.3%	NA	840.1	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 earnings conference-call highlights

- HDFC Bank refrained from giving specific guidance but reiterated its focus on increasing profitability on a sustainable basis.
- The bank maintains its stance on the interest rate pricing scenario and is not in favour of growing the business at a fast pace at the cost of profitability. Its management sees these short-term benefits unsustainable in the long run.
- The key focus for the medium term (two-to-three years) is on improving RoA with a sustainable retail deposit franchise and enhanced customer service.
- The bank will continue to invest in distribution, people and technology.
- Retail deposits also included some transitory flows in 4QFY24, which will move out in 1QFY25F. Seasonally, the 4Q of every year has high transitory deposit movement which moves out in the next quarter.
- On the priority sector lending or PSL front, the bank has achieved most of the targets (total PSL was at 52% vs regulatory requirement of 40%), barring those assigned for small and marginal farmers and for weaker sections. Given the scale of the bank, its management finds it arduous to achieve these targets as the ticket sizes are very small and it takes a large number to move the needle.
- Total floating provisions stood at 50bp, and contingent provisions stood at 59bp, of total loans.
- Borrowings declined by 10% qoq, of which 38% is attributable to commercial paper borrowings from the merger of HDFC and the rest are related to treasury activities.
- High-cost maturities on the borrowing front related to HDFC will be seen in FY25F.
- Total retail loan book grew by 3% qoq led by broad-based overall growth, home loans grew at a strong pace (+4% qoq), followed by automobile loans (+2% qoq) and personal loans (+2% qoq). Business banking and commercial transportation segments grew at a healthy pace of 5% each sequentially. The bank stayed away from corporate lending (-2% qoq) and emerging corporate lending (-2% qoq) due to the highly competitive pricing.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	868,422	1,085,325	1,435,519	1,694,932	1,990,257
Total Non-Interest Income	312,148	492,410	563,158	641,016	719,454
Operating Revenue	1,180,571	1,577,735	1,998,676	2,335,948	2,709,710
Total Non-Interest Expenses	(454,096)	(607,282)	(724,291)	(852,039)	(988,365)
Pre-provision Operating Profit	704,050	943,874	1,256,465	1,464,070	1,699,067
Total Provision Charges	(119,197)	(234,921)	(202,655)	(246,963)	(302,704)
Operating Profit After Provisions	584,853	708,953	1,053,810	1,217,107	1,396,363
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	584,853	708,953	1,053,810	1,217,107	1,396,363
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	584,853	708,953	1,053,810	1,217,107	1,396,363
Exceptional Items					
Pre-tax Profit	584,853	708,953	1,053,810	1,217,107	1,396,363
Taxation	(143,766)	(100,830)	(214,977)	(273,849)	(342,109)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	441,087	608,123	838,833	943,258	1,054,254
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	441,087	608,123	838,833	943,258	1,054,254
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	86.3%	95.8%	103.7%	102.2%	100.3%
Avg Liquid Assets/Avg Assets	94.6%	94.0%	94.9%	95.7%	96.0%
Avg Liquid Assets/Avg IEAs	108.8%	107.8%	107.0%	106.9%	107.0%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans	0.80%	1.15%	0.75%	0.77%	0.80%
Provision Charge/Avg Assets	0.53%	0.77%	0.53%	0.56%	0.59%
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	16,005,859	24,848,616	29,192,690	34,539,732	41,136,276
Liquid Assets & Invst. (Current)	5,170,015	7,024,150	7,265,861	7,625,836	8,036,164
Other Int. Earning Assets					
Total Gross Int. Earning Assets	21,175,874	31,872,764	36,458,552	42,165,568	49,172,440
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	21,175,874	31,872,764	36,458,552	42,165,568	49,172,440
Intangible Assets					
Other Non-Interest Earning Assets	1,467,125	1,998,002	1,692,279	1,809,919	1,943,263
Total Non-Interest Earning Assets	1,547,291	2,111,992	1,817,668	1,947,847	2,094,983
Cash And Marketable Securities	1,937,651	2,191,474	2,565,829	2,895,045	3,516,282
Long-term Investments					
Total Assets	24,660,814	36,176,232	40,842,048	47,008,460	54,783,708
Customer Interest-Bearing Liabilities	18,833,944	23,797,862	28,305,652	34,076,228	41,387,060
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	20,901,600	30,419,394	34,459,104	39,725,628	46,481,628
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	957,223	1,354,379	1,408,307	1,631,594	1,901,330
Total Liabilities	21,858,824	31,773,772	35,867,408	41,357,220	48,382,960
Shareholders Equity	2,801,990	4,402,458	4,974,637	5,651,241	6,400,748
Minority Interests					
Total Equity	2,801,990	4,402,458	4,974,637	5,651,241	6,400,748

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	20.6%	25.0%	32.3%	18.1%	17.4%
Operating Profit Growth	10.6%	33.6%	31.3%	16.4%	16.0%
Pretax Profit Growth	19%	21%	49%	15%	15%
Net Interest To Total Income	73.6%	68.8%	71.8%	72.6%	73.4%
Cost Of Funds	3.90%	5.84%	5.50%	5.16%	4.86%
Return On Interest Earning Assets	8.2%	9.7%	9.4%	9.2%	8.9%
Net Interest Spread	4.30%	3.90%	3.92%	4.02%	4.08%
Net Interest Margin (Avg Deposits)	5.05%	5.09%	5.51%	5.43%	5.27%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	25%	16%	17%	18%
Interest Return On Average Assets	3.83%	3.57%	3.73%	3.86%	3.91%
Effective Tax Rate	24.6%	14.2%	20.4%	22.5%	24.5%
Net Dividend Payout Ratio	31.7%	24.4%	31.8%	28.3%	28.9%
Return On Average Assets	1.95%	2.00%	2.18%	2.15%	2.07%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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