



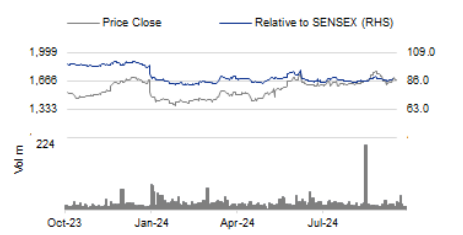
India

ADD (no change)

Consensus ratings*: Buy 38 Hold 9 Sell 0	
Current price:	Rs1,682
Target price: ▲	Rs2,150
Previous target:	Rs2,000
Up/downside:	27.8%
InCred Research / Consensus:	13.3%
Reuters:	HDBK.NS
Bloomberg:	HDFCB IN
Market cap:	US\$152,650m Rs12,833,820m
Average daily turnover:	US\$410.4m Rs34501.3m
Current shares o/s:	7,586.9m
Free float:	100.0%
*Source: Bloomberg	

Key changes in this note

➤ We remain confident of healthy deposit growth, mainly driven by CASA aggression led by a shored-up network as well as a well-oiled distribution machinery.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.8)	4.2	10.7
Relative (%)	3.3	3.4	(10.9)

Major shareholders	% held
FPI	41.5
ADR	13.5
SBI-ETF Nifty 50	6.0

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HDFC Bank

The proof of the pudding is in the eating

- HDFCB posted an inline 2Q PAT of Rs16.8bn despite weak business growth amid sequentially stable margin/provision and improving operating leverage.
- Setting the stage for deposit growth and deepening of urban/rural branches to aid margin expansion and improve operating leverage. Long-term story intact.
- Retain ADD with a Rs2,150 TP as we are confident on growth outlook & expect margin volatility to adjust against improved operating leverage/low provision.

Deposit momentum picking up; branch ageing to drive CASA growth

HDFC Bank or HDFCB's deposits as of 2QFY25-end rose by ~5.1% qoq (+15.1% yoy) to Rs25tr, while the growth on an average basis was also healthy at ~3.1% qoq, indicating improved traction from retail customers. The CASA ratio saw a qoq dip to ~35% as time deposits growth accelerated, but the trend to normalize with rural CASA is set to improve over the mid- to long-term. The ageing of branches will lead to healthy deposit growth led by sticky and granular rural/urban FD & CASA flows. Management remains firm about deposits growing at a faster pace, compared to growth in advances, in the near term to achieve a comfortable credit-to-deposit ratio which improved to 100% vs. ~104% last quarter while the overall liquidity coverage ratio improved to ~128% vs. ~123% in Jun 2024.

Retail/agri/SME loans to grow at a faster pace than corporate loans

On the advances front, HDFC Bank has increased its focus on unsecured retail lending (other than mortgages), which has grown by ~3.8% qoq whereas mortgages grew by ~1.9% qoq, which is in sync with our channel check. Commercial and rural banking also remain the key growth area with ~4.7% qoq growth. This will support overall yields in the mid- to long-term. The corporate loan slowdown (-2.8% qoq) is attributable to competitive pricing. HDFC Bank enjoys a geographically diversified reach with a higher focus on granular retail, commercial and rural lending while trading cautiously on corporate loans.

Steady NIM; operating leverage to play out gradually

The net interest margin or NIM was flat qoq at 3.7%, as the bank maintained its stance on chasing profitable growth and not participating in competitive pricing. Operating expenses grew at a slower pace, compared to income, which led to further improvement in the cost-to-income ratio to ~40.6% vs. ~41% last quarter. We feel HDFC Bank is in an advantageous position as operating leverage comes into play, with more branches maturing and slower branch addition going ahead. There has been no negative surprise on the asset quality front, with headline NPA & credit costs (~43bp) steady sequentially.

Outlook & valuation

HDFC Bank is our high-conviction ADD-rated stock with a stable target price of Rs2,150, as we continue to believe that the bank's transition phase is on track. We expect it to be ~2% RoA & ~16% RoE story. We have valued the standalone bank at ~2.7x FY26F BV & its arms at Rs250/share. Downside risks: Slow growth & weak margin.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	868,422	1,085,325	1,295,825	1,502,630	1,742,217
Total Non-Interest Income (Rsm)	312,148	492,410	459,211	529,785	602,869
Operating Revenue (Rsm)	1,180,571	1,577,735	1,755,036	2,032,415	2,345,085
Total Provision Charges (Rsm)	(119,197)	(234,922)	(116,775)	(143,178)	(194,062)
Net Profit (Rsm)	441,087	608,123	712,996	857,547	976,196
Core EPS (Rs)	79.05	80.05	93.85	112.88	128.50
Core EPS Growth	19%	1%	17%	20%	14%
FD Core P/E (x)	21.28	21.01	17.92	14.90	13.09
DPS (Rs)	25.00	19.50	30.00	45.00	65.00
Dividend Yield	1.49%	1.16%	1.78%	2.68%	3.86%
BVPS (Rs)	502.2	579.5	643.2	710.9	774.1
P/BV (x)	3.35	2.90	2.61	2.37	2.17
ROE	17.0%	16.9%	15.4%	16.7%	17.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	2,35,991	2,73,852	2,84,713	2,90,768	2,98,371	3,01,139	10.0%	0.9%
NIM (% of AUM)	4.4%	3.7%	3.7%	3.7%	3.8%	3.8%		
Fee-Based Income	92,299	1,07,078	1,11,370	1,81,663	1,06,681	1,14,827	7.2%	7.6%
Operating Expenses	1,40,569	1,53,992	1,59,611	1,79,688	1,66,206	1,68,909	9.7%	1.6%
Operating Profit	1,87,720	2,26,939	2,36,473	2,92,742	2,38,846	2,47,057	8.9%	3.4%
Provisions	28,600	29,038	42,166	1,35,116	26,021	27,005	-7.0%	3.8%
Exceptional Items	-	-	-	-	-	-		
PBT	1,59,120	1,97,901	1,94,307	1,57,626	2,12,826	2,20,053	11.2%	3.4%
Tax	-39,602	-38,139	-30,581	7,493	-51,078	-51,843	35.9%	1.5%
Tax rate (%)	24.9%	19.3%	15.7%	-4.8%	24.0%	23.6%		
PAT	1,19,518	1,59,761	1,63,725	1,65,119	1,61,748	1,68,210	5.3%	4.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

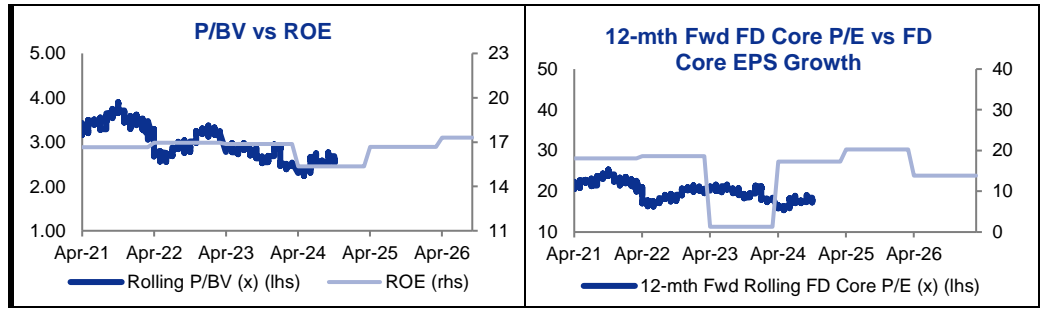
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	12,95,825	12,95,825	0.0%	15,02,630	15,02,630	0.0%	17,42,217	17,42,217	0.0%
Non-Interest Income	4,59,211	4,59,211	0.0%	5,29,785	5,29,785	0.0%	6,02,869	6,02,869	0.0%
PPOP	10,54,927	10,54,927	0.0%	12,71,529	12,71,529	0.0%	14,78,530	14,78,530	0.0%
PAT	7,12,996	7,12,996	0.0%	8,57,547	8,57,547	0.0%	9,76,196	9,76,196	0.0%
EPS (Rs)	93.8	93.8	0.0%	112.8	112.8	0.0%	128.4	128.4	0.0%
BV (Rs)	640.2	640.2	0.0%	707.5	707.5	0.0%	770.4	770.4	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings call highlights

- HDFC Bank, before the merger of HDFC, operated at an LDR of 86-87% which later rose to the level of 121%. Management expects the high growth rate in advances to come down to the level of the growth rate in deposits, which would result in achieving the pre-merger level of LDR in two-to-three years.
- The bank's key focus is to meet the priority sector lending requirements organically for small and marginal farmers and weaker sections of society.
- The bank has reduced its growth rate in unsecured loans to 10%, which was 19% yoy.
- The fee income of the bank was around ~Rs80bn, which grew by 32% qoq on the back of strong demand for a third-party product.
- The securitization income is in the form of excess spreads forming a part of interest income. For the quarter, it was not much as the transaction was done at the end of the quarter.
- The bank has reversed the Agri Infra Fund provision made earlier, based on the clarification given by the Reserve Bank of India or RBI.
- The RBI circular regarding overlapping of the customer segment of banks and their subsidiaries is in the draft stage and comments of the industry are yet to be received. The business model and customer segment of banks and non-banking finance companies or NBFCs are different. The regulations applicable to banks and NBFCs are similar in nature, like income recognition, provisioning, and lending standards that are required. The overlapping between HDFC Bank and its NBFC, known as HDF Financial Services, is limited.
- As regards CRB lending, the market is elastic to interest rates. A few basis points rate hike will translate into lower demand for loans. The repo rate has gone up by 250bp, but the lending rate has moved up by 150bp for the CRB segment.
- On the wholesale lending and large corporate lending fronts, the loan spreads have moved up, but bond spreads have not moved like loan spreads. These are large corporate borrowers, and HDFC Bank needs to have appropriate interest rates to cover the life-time risk.
- HDFC Bank set up 240 branches during the quarter, and the aim is to increase branches to improve its reach. In the case of cities, the plan is to make the branch network denser.
- A large portion of HDFC Ltd's borrowing is non-callable and so it requires on-the-table negotiations that require the consent of investors.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	868,422	1,085,325	1,295,825	1,502,630	1,742,217
Total Non-Interest Income	312,148	492,410	459,211	529,785	602,869
Operating Revenue	1,180,571	1,577,735	1,755,036	2,032,415	2,345,085
Total Non-Interest Expenses	(454,096)	(607,070)	(663,329)	(738,125)	(841,462)
Pre-provision Operating Profit	704,050	943,874	1,054,927	1,271,529	1,478,530
Total Provision Charges	(119,197)	(234,922)	(116,775)	(143,178)	(194,062)
Operating Profit After Provisions	584,853	708,953	938,152	1,128,352	1,284,468
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	584,853	708,953	938,152	1,128,352	1,284,468
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	584,853	708,953	938,152	1,128,352	1,284,468
Exceptional Items					
Pre-tax Profit	584,853	708,953	938,152	1,128,352	1,284,468
Taxation	(143,766)	(100,830)	(225,157)	(270,804)	(308,272)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	441,087	608,123	712,996	857,547	976,196
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	441,087	608,123	712,996	857,547	976,196
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%	102.5%	99.6%	98.0%
Avg Liquid Assets/Avg Assets	94.6%	94.0%	94.2%	94.4%	94.7%
Avg Liquid Assets/Avg IEAs	108.8%	107.8%	106.7%	107.2%	107.9%
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%	0.45%	0.50%	0.60%
Provision Charge/Avg Assets	0.53%	0.77%	0.31%	0.35%	0.42%
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	27,051,244	30,219,776	34,467,568
Liquid Assets & Invst. (Current)	5,170,015	7,024,150	7,329,332	7,734,211	8,174,153
Other Int. Earning Assets					
Total Gross Int. Earning Assets	21,175,874	31,872,764	34,380,576	37,953,988	42,641,720
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	21,175,874	31,872,764	34,380,576	37,953,988	42,641,720
Intangible Assets					
Other Non-Interest Earning Assets	1,467,125	1,998,002	2,126,569	2,241,548	2,371,484
Total Non-Interest Earning Assets	1,547,291	2,111,992	2,251,958	2,379,475	2,523,204
Cash And Marketable Securities	1,937,651	2,191,474	2,266,846	2,925,393	3,424,909
Long-term Investments					
Total Assets	24,660,814	36,176,232	38,899,380	43,258,856	48,589,836
Customer Interest-Bearing Liabilities	18,833,944	23,797,862	26,850,978	30,669,010	35,335,872
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	20,901,600	30,419,394	32,580,332	36,355,856	41,079,064
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	957,223	1,354,379	1,432,589	1,502,490	1,630,224
Total Liabilities	21,858,824	31,773,772	34,012,920	37,858,344	42,709,288
Shareholders Equity	2,801,990	4,402,458	4,886,458	5,400,511	5,880,549
Minority Interests					
Total Equity	2,801,990	4,402,458	4,886,458	5,400,511	5,880,549

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	20.6%	25.0%	19.4%	16.0%	15.9%
Operating Profit Growth	10.6%	33.6%	12.5%	18.6%	16.2%
Pretax Profit Growth	19%	21%	32%	20%	14%
Net Interest To Total Income	73.6%	68.8%	73.8%	73.9%	74.3%
Cost Of Funds	3.90%	5.84%	5.48%	4.91%	4.50%
Return On Interest Earning Assets	8.2%	9.7%	9.1%	8.8%	8.6%
Net Interest Spread	4.30%	3.90%	3.64%	3.92%	4.15%
Net Interest Margin (Avg Deposits)	5.05%	5.09%	5.12%	5.22%	5.28%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	25%	11%	11%	13%
Interest Return On Average Assets	3.83%	3.57%	3.45%	3.66%	3.79%
Effective Tax Rate	24.6%	14.2%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	31.7%	24.4%	32.1%	40.1%	50.8%
Return On Average Assets	1.95%	2.00%	1.90%	2.09%	2.13%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.