



India

ADD (no change)

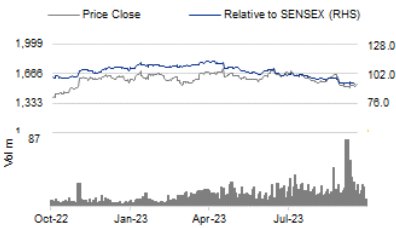
Consensus ratings*: Buy 44 Hold 4 Sell 0

Current price:	Rs1,530
Target price:	Rs2,000
Previous target:	Rs2,000
Up/downside:	30.7%
InCred Research / Consensus:	1.3%
Reuters:	HDBK.NS
Bloomberg:	HDFCB IN
Market cap:	US\$139,259m Rs11,597,150m
Average daily turnover:	US\$382.2m Rs31831.6m
Current shares o/s:	5,533.2m
Free float:	70.5%

*Source: Bloomberg

Key changes in this note

► We are confident of a healthy growth in advances post HDFC merger, but margin pressure to stay in 2HFY24 amid excess liquidity & elevated cost of deposits.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.0)	(8.9)	5.7
Relative (%)	(5.6)	(8.3)	(6.7)

Major shareholders	% held
FPI	52.0
ADR	14.1
SBI-ETF Nifty 50	5.7

Analyst(s)



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HDFC Bank

The worst is already behind

- HDFC Bank posted a healthy 2Q PAT of Rs15.9bn, despite a sequential decline in margins, due to improved operating leverage & lower credit costs.
- We are confident of healthy growth in advances post HDFC merger, but margin pressure to stay in 2HFY24F amid excess liquidity & elevated cost of deposits.
- Offsetting margin decline with lower credit costs amid rapid branch expansion drives growth certainty. Retain High Conviction ADD with a TP of Rs2,000.

Margin compression amid higher liquidity; normalization seen by 4Q

HDFC Bank posted a sequential decline in its 2QFY24 margins to ~360bp amid elevated liquidity it had to maintain to manage liquidity coverage post HDFC merger as well as some high-cost liabilities on its balance sheet. Management remains confident of a recovery to the normalized trend of ~4% by FY24F amid absorption of excess liquidity as well as the bank's rising focus on better quality retail lending. We believe the rising cost of deposits as well as the highly competitive mortgage business resulted in a margin squeeze.

Granularity in the growth in advances is encouraging

HDFC Bank reported a growth in advances of ~13% yoy/4.9% qoq to Rs23.5tr as of Sep 2023-end. The growth was across segments, with retail loans growing by ~6% qoq to Rs~12.3tr, commercial & rural banking at ~29.5% yoy/~9.5% qoq to Rs7tr while the wholesale book grew by 8% yoy/6% qoq to Rs4.2tr. Management remains committed to growing the wholesale book (developer lending) of HDFC as well, which will yield better returns. 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 (~1,480 branches in FY23), mainly in semi-urban/rural areas.

Asset quality profile stable; major pain of merger already recognized

HDFC Bank reported a nominal rise in its headline non-performing assets or NPAs post HDFC merger, with a sequential surge in gross NPAs by ~17bp to ~1.34%, out of which ~22bp were related to restructured accounts from HDFC which are current and performing but have been classified as NPAs, according to the guidelines. Management expects some more slippage from the wholesale loan book of HDFC, but the overall trend in NPAs and credit cost is expected to remain under check.

Outlook & valuation

We continue to believe that HDFC Bank is better placed on granular branch expansion and faster customer acquisition compared to most peers, which will ensure superior retail asset growth with healthy asset quality. We expect HDFC Bank to be ~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 the subsidiaries at Rs200/share. Slow growth and weak margins are key downside risks to our investment thesis.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	720,096	868,422	1,111,369	1,517,710	1,700,134
Total Non-Interest Income (Rsm)	295,099	312,148	410,275	470,877	542,538
Operating Revenue (Rsm)	1,015,195	1,180,571	1,521,644	1,988,587	2,242,672
Total Provision Charges (Rsm)	(150,618)	(119,197)	(114,381)	(178,018)	(205,834)
Net Profit (Rsm)	369,614	441,087	606,188	796,337	876,583
Core EPS (Rs)	66.65	79.05	81.69	107.32	118.13
Core EPS Growth	18%	19%	3%	31%	10%
FD Core P/E (x)	22.95	19.35	18.72	14.25	12.95
DPS (Rs)	15.50	25.00	25.00	30.00	35.00
Dividend Yield	1.01%	1.63%	1.63%	1.96%	2.29%
BVPS (Rs)	433.0	502.2	610.5	687.1	769.3
P/BV (x)	3.53	3.05	2.51	2.23	1.99
ROE	16.7%	17.0%	16.5%	16.5%	16.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	194,814	210,212	229,878	233,518	235,991	273,852	30.3%	16.0%
<i>NIM (% of AUM)</i>	4.2%	4.3%	4.6%	4.5%	4.4%	4.2%		
Fee-based Income	63,882	75,956	84,998	87,312	92,299	107,078	41.0%	16.0%
Operating Expenses	105,018	112,246	124,636	134,621	140,569	153,992	37.2%	9.5%
Operating Profit	153,678	173,922	190,241	186,209	187,720	226,939	30.5%	20.9%
Provisions	31,877	32,401	28,064	26,854	28,600	29,038	-10.4%	1.5%
Exceptional Items	-	-	-	-	-	-		
PBT	121,801	141,520	162,176	159,355	159,120	197,901	39.8%	24.4%
Tax	-29,841	-35,463	-39,581	-38,881	-39,602	-38,139	7.5%	-3.7%
<i>Tax rate (%)</i>	24.5%	25.1%	24.4%	24.4%	24.9%	19.3%		
PAT	91,960	106,058	122,595	120,475	119,518	159,761	50.6%	33.7%
Advances (Rs bn)	13,951	14,799	15,068	16,006	16,157	23,312	57.5%	44.3%
Deposits (Rs bn)	16,048	16,734	17,332	18,834	19,131	21,729	29.8%	13.6%

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	1,218,236	1,111,369	-8.8%	1,559,739	1,517,710	-2.7%	1,752,234	1,700,134	-3.0%
Non-Interest Income	356,627	410,275	15.0%	408,824	470,877	15.2%	471,400	542,538	15.1%
PPOP	962,212	901,639	-6.3%	1,250,498	1,232,769	-1.4%	1,409,693	1,366,871	-3.0%
PAT	598,361	606,188	1.3%	772,266	796,337	3.1%	856,154	876,583	2.4%
EPS (Rs)	80.6	80.2	-0.6%	104.1	105.3	1.2%	115.4	115.9	0.5%
BV (Rs)	610.0	596.0	-2.3%	684.1	670.8	-1.9%	764.5	751.1	-1.7%

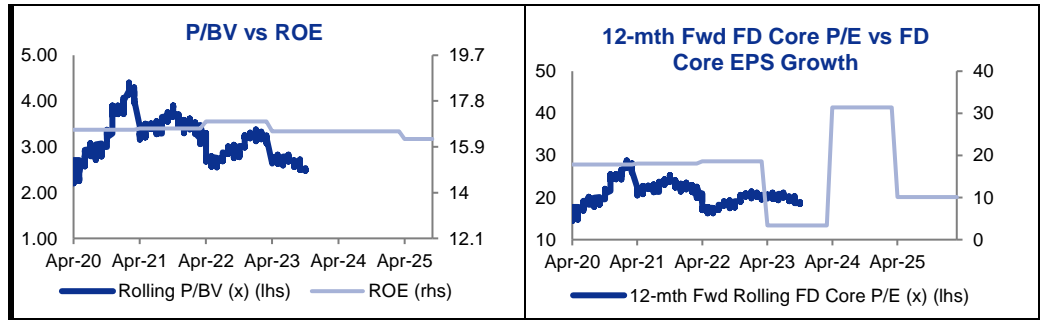
SOURCE: INCRED RESEARCH

Figure 3: Sum of Parts Valuation

Particulars	Stake(%)	Value (mn)	Rs. per share	Valuation methodology
HDFC Bank - Standalone (A)		13,680,779	1,800	ERE - 2.7x FY25BV
HDB Financial	95%	210,062	30	2x FY25E P/BV
HDFC Securities	96%	192,318	30	16x FY25F P/E
HDFC Standard Life	50%	1,020,692	135	3x FY25F P/EV
HDFC General Insurance	51%	94,959	10	20x FY25E P/E
HDFC AMC	53%	303,188	40	34x FY25F P/E
Value of Subsidiaries (B)			250	
Holding Company Discount (C)	20%		50	
Value of bank (A+B-C)			2,000	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	720,096	868,422	1,111,369	1,517,710	1,700,134
Total Non-Interest Income	295,099	312,148	410,275	470,877	542,538
Operating Revenue	1,015,195	1,180,571	1,521,644	1,988,587	2,242,672
Total Non-Interest Expenses	(358,424)	(454,096)	(593,427)	(737,898)	(855,961)
Pre-provision Operating Profit	640,773	704,050	901,639	1,232,769	1,366,871
Total Provision Charges	(150,618)	(119,197)	(114,381)	(178,018)	(205,834)
Operating Profit After Provisions	490,155	584,853	787,257	1,054,751	1,161,037
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	490,155	584,853	787,257	1,054,751	1,161,037
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	490,155	584,853	787,257	1,054,751	1,161,037
Exceptional Items					
Pre-tax Profit	490,155	584,853	787,257	1,054,751	1,161,037
Taxation	(120,541)	(143,766)	(181,069)	(258,414)	(284,454)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	369,614	441,087	606,188	796,337	876,583
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	369,614	441,087	606,188	796,337	876,583
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%	96.6%	103.8%	100.3%
Avg Liquid Assets/Avg Assets	96.3%	94.6%	94.7%	95.5%	95.8%
Avg Liquid Assets/Avg IEAs	108.0%	108.8%	107.4%	107.1%	108.9%
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%	0.55%	0.65%	0.65%
Provision Charge/Avg Assets	0.79%	0.53%	0.37%	0.46%	0.46%
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	25,408,410	29,249,358	33,766,268
Liquid Assets & Invst. (Current)	4,555,357	5,170,015	7,319,734	7,535,131	7,877,073
Other Int. Earning Assets					
Total Gross Int. Earning Assets	18,243,566	21,175,874	32,728,142	36,784,488	41,643,340
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	18,243,566	21,175,874	32,728,142	36,784,488	41,643,340
Intangible Assets					
Other Non-Interest Earning Assets	857,678	1,467,125	1,593,322	1,692,846	1,802,185
Total Non-Interest Earning Assets	918,514	1,547,291	1,681,504	1,789,846	1,908,885
Cash And Marketable Securities	1,523,269	1,937,651	2,051,386	2,876,315	4,122,699
Long-term Investments					
Total Assets	20,685,350	24,660,814	36,461,032	41,450,652	47,674,924
Customer Interest-Bearing Liabilities	15,592,174	18,833,944	24,033,908	28,619,894	34,222,896
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	17,440,346	20,901,600	30,808,030	35,212,492	40,656,956
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	844,075	957,223	1,122,952	1,139,783	1,309,023
Total Liabilities	18,284,422	21,858,824	31,930,982	36,352,276	41,965,980
Shareholders Equity	2,400,929	2,801,990	4,530,051	5,098,375	5,708,943
Minority Interests					
Total Equity	2,400,929	2,801,990	4,530,051	5,098,375	5,708,943

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	11.0%	20.6%	28.0%	36.6%	12.0%
Operating Profit Growth	12.0%	10.6%	27.8%	34.7%	10.9%
Pretax Profit Growth	18%	19%	35%	34%	10%
Net Interest To Total Income	70.9%	73.6%	73.0%	76.3%	75.8%
Cost Of Funds	3.47%	3.90%	5.72%	5.06%	4.73%
Return On Interest Earning Assets	7.5%	8.2%	9.6%	9.2%	8.9%
Net Interest Spread	4.04%	4.30%	3.89%	4.11%	4.18%
Net Interest Margin (Avg Deposits)	4.98%	5.05%	5.19%	5.76%	5.41%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	24%	17%	13%	14%	15%
Interest Return On Average Assets	3.77%	3.83%	3.64%	3.90%	3.82%
Effective Tax Rate	24.6%	24.6%	23.0%	24.5%	24.5%
Net Dividend Payout Ratio	23.4%	31.7%	31.3%	28.6%	30.3%
Return On Average Assets	1.94%	1.95%	1.98%	2.04%	1.97%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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