



India

ADD (no change)

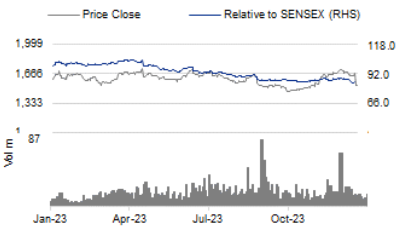
Consensus ratings*: Buy 44 Hold 6 Sell 0

Current price:	Rs1,538
Target price:	Rs2,000
Previous target:	Rs2,000
Up/downside:	30.0%
InCred Research / Consensus:	2.2%
Reuters:	HDBK.NS
Bloomberg:	HDFCB IN
Market cap:	US\$140,414m Rs11,673,450m
Average daily turnover:	US\$374.2m Rs31111.7m
Current shares o/s:	7,560.9m
Free float:	70.5%

*Source: Bloomberg

Key changes in this note

Raising deposits is not a major challenge but rather we believe that with a rising geographic expansion, HDFC Bank is well-placed to gain retail deposit market share from PSU banks.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.1)	1.2	(6.1)
Relative (%)	(7.4)	(6.8)	(19.8)

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

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HDFC Bank

It remains our high-conviction idea

- Deposit growth moderation is a cautious call to cut the wholesale base & it can be reversed anytime. Margin pressure to be managed with a shift in asset mix.
- Post correction, HDFC Bank trades at an attractive risk-reward of ~1.9x FY25F BV (standalone), considering the growth granularity & a superior business mix.
- Weak deposit growth/margin pressure is for all banks. HDFC Bank well-placed amid its command over pricing. Retain high-conviction ADD with a Rs2,000 TP.

Moderation in deposit growth is a cautious call by management

HDFC Bank has grown its deposit base by +1.9% qoq but retail deposits have grown by +2.9% qoq. Management has cautiously reduced the wholesale deposit base from ~17% of total deposits in Mar 2023 (~20% in Mar 2021) to ~16% in Dec 2023. This is because wholesale deposits have been volatile as well as expensively priced due to the negative systemic liquidity. However, in case of a genuine credit growth momentum, raising wholesale deposits will not be a challenge for the bank. Thus, raising deposits is not a major challenge but rather we believe that with a rising geographic expansion, HDFC Bank is better placed to gain retail deposit market share from public sector or PSU banks.

Margins could be an issue in near term but there is a plan

In case of a surge in wholesale deposits, HDFC Bank may witness initial pressure on its margins in the coming quarters but the same can be compensated by superior operating leverage (amid a rise in large-ticket mortgages) and managing rangebound credit cost. We also believe that management intends to improve the share of better-yield retail assets (unsecured/credit cards/SME loans), which will gradually compensate for the rise in the cost of funds.

Credit growth has never been a challenge for HDFC Bank

HDFC Bank is a geographically well-diversified bank with a consistently improving pan-India presence, primarily in semi-urban and rural areas. The bank has acquired 2m customers in 3QFY24 and has become a franchise with ~93m customers. Thus, growing advances in a granular manner has never been a challenge for the bank but rather with a consistent focus on geographic expansion, we remain more confident on the bank managing its credit growth momentum even in an adverse credit growth cycle.

Dilemma applicable to the entire sector but HDFC Bank better placed

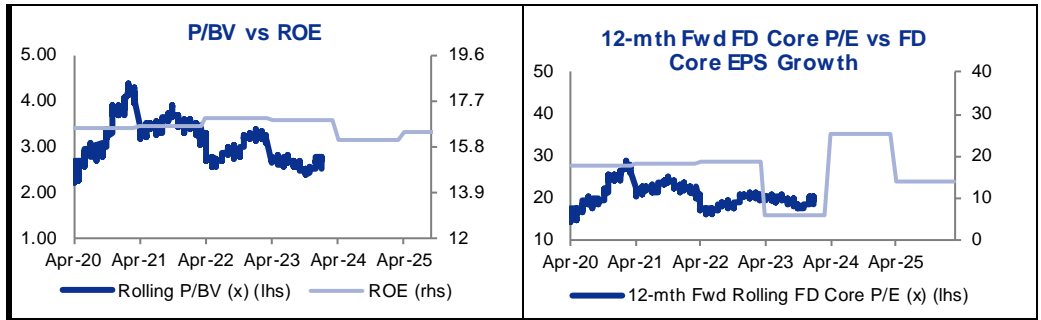
We believe that elevated cost of deposits and pressure on margins would be a common problem for all banks in the coming quarters, but we believe HDFC Bank is better placed due to its improved penetration providing portfolio granularity and a command over loan pricing. Post recent correction, HDFC Bank is available at ~1.9x FY25F BV on a standalone basis, which provides an attractive risk-reward ratio. 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.

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)	23.07	19.45	18.41	14.70	12.89
DPS (Rs)	15.50	25.00	25.00	30.00	35.00
Dividend Yield	1.01%	1.63%	1.63%	1.95%	2.28%
BVPS (Rs)	433.0	502.2	612.3	686.2	769.6
P/BV (x)	3.55	3.06	2.51	2.24	2.00
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

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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