



India

ADD (no change)

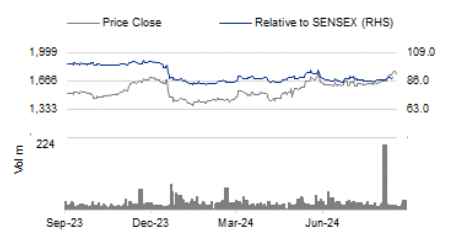
Consensus ratings*: Buy 38 Hold 9 Sell 0

Current price:	Rs1,753
Target price:	Rs2,150
Previous target:	Rs2,000
Up/downside:	22.6%
InCred Research / Consensus:	13.8%
Reuters:	
Bloomberg:	HDFCB IN
Market cap:	US\$184,127m Rs13,370,340m
Average daily turnover:	US\$479.9m Rs34850.6m
Current shares o/s:	7,586.9m
Free float:	70.5%

*Source: Bloomberg

Key changes in this note

➤ HDFC Bank is setting the stage for deposit growth & deepening of urban/rural branches which will aid margin expansion and improve operating leverage. Long-term story intact.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.0	3.3	14.8
Relative (%)	3.0	(4.6)	(11.7)

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

Research Analyst(s)



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HDFC Bank

Picture Abhi Baaki Hai Mere Dost!

- We feel the recent sell-down in loans is an appropriate strategy over high-cost funding as the near-term slowdown in loans is inevitable & already priced in.
- Setting the stage for deposit growth, primarily SA, via deepening of semi-urban/rural branches, will aid margin expansion & improve operating leverage.
- We see a clear focus of the management on profitable growth with best-in-class asset quality; retain ADD rating with a TP of Rs2,150.

Portfolio sell-out: 'Haar ke jeetne waale ko Baazigar kehte hai'

As per media reports, HDFC Bank has sold loans worth ~Rs150bn during Sep 2024 which, we believe, is aimed at improving liquidity (LCR & LDR) as well as managing margins. Although the portfolio sell-out is a smaller portion (~60bp of the book), we believe it is an appropriate strategy, given the anticipation of lower interest rates, industrywide weak deposit momentum as well as volatility in wholesale or bulk deposit pricing. Thus, the move is to safeguard margins and profitability in the near term.

Muted growth: 'Bade desho mein aisi choti baatein hoti rehti hain'

We believe the slowdown in loan growth is inevitable as HDFC Bank continues to refrain from participating in competitive corporate loan pricing whereas it has consciously become selective in unsecured retail lending to safeguard asset quality. We believe the bank will move past the near-term slowdown and expect its loan growth to improve to ~12-14% in FY26F-27F (Fig. 1). We also expect a healthy improvement in NIM of ~30bp till FY27F (Fig. 2).

Rural deposits & operating leverage: 'Koi dhandha chota nahi hota'

Our channel check indicates improving traction for HDFC Bank at its recently opened semi-urban and rural branches. The decent brand recall and lack of private bank offerings provide a first-mover advantage to the bank, which augurs well. We expect the bank to sustain healthy branch expansion and believe that ageing of branches will lead to a healthy deposit growth led by sticky and granular rural/urban FD and CASA flows. The heightened branch network of 8,851 branches comprises ~28% relatively newer branches that have been added in the last two years. As these branches have started breaking even, the top-line growth to supercede opex growth. We build in the cost-to-income ratio improving by ~370bp over FY27F.

Outlook: 'Aur dhandhe se bada koi dharm nahi hota'

HDFC Bank remains the top lender in India with its impeccable underwriting, strong management pedigree and a gradual but steady improvement in return ratios. We retain our high conviction ADD rating on the stock with a higher target price of Rs2,150 (Rs2,000 earlier), valuing the standalone bank at 2.7x FY26F and its subsidiaries at Rs250/share. Slower-than-expected growth remains a key downside risk.

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)	22.17	21.89	18.67	15.53	13.64
DPS (Rs)	25.00	19.50	30.00	45.00	65.00
Dividend Yield	1.43%	1.11%	1.71%	2.57%	3.71%
BVPS (Rs)	502.2	579.5	643.2	710.9	774.1
P/BV (x)	3.49	3.02	2.72	2.47	2.26
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

Key charts

Figure 1: Loan growth to regain momentum led by retail, SME and agri loans

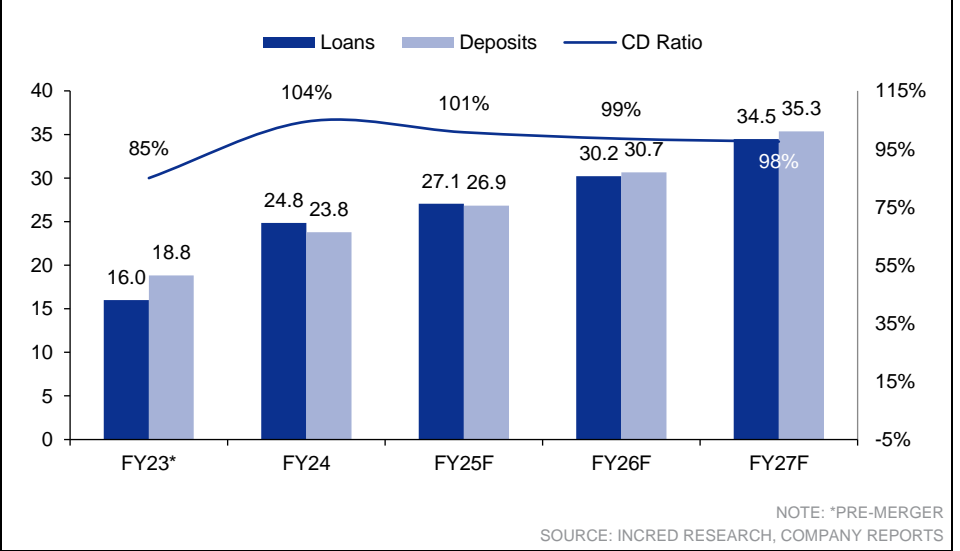


Figure 2: NIM is expected to improve by ~30 bp by FY27F

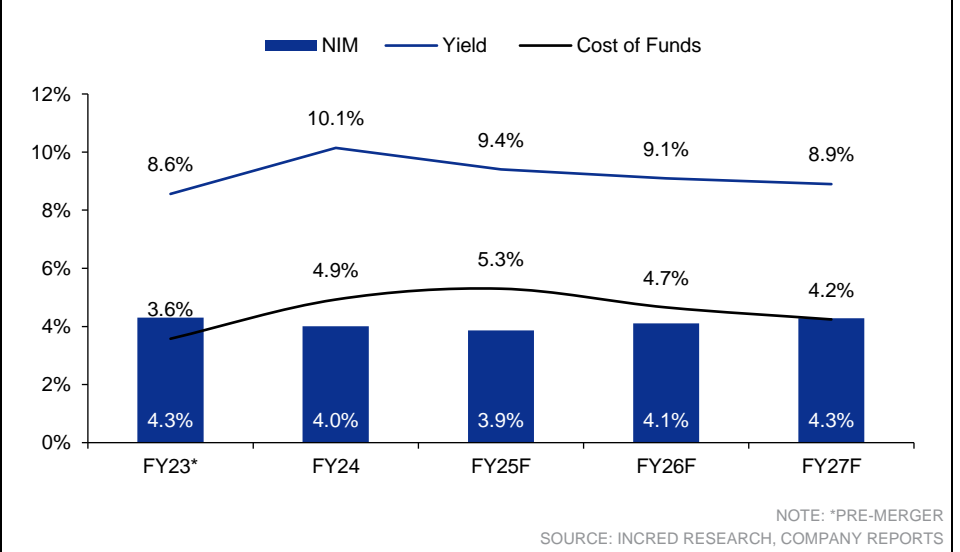
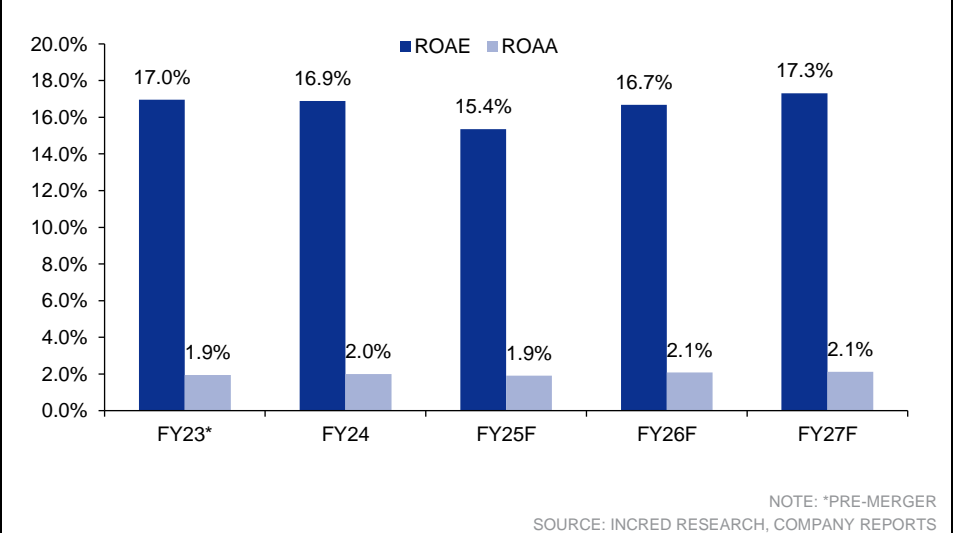
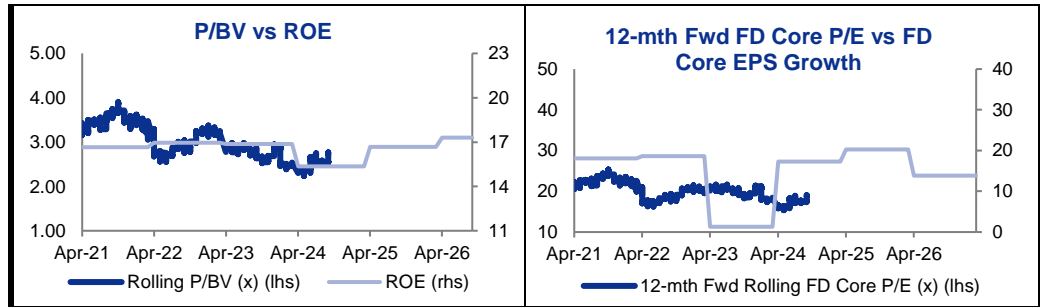


Figure 3: HDFC Bank is steadily moving towards improving its return ratios over FY26F-27F



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 & Provn/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.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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.

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Definition:

- 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.

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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.