

# HDFC BANK LIMITED (HDFBAN)

CMP: ₹ 1643

Target: ₹ 1850 (13%)

Target Period: 12 months

July 22, 2024

HOLD

## Operational performance steady; slower balance sheet weighs

About the stock: HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. Post merger, the bank has become the second largest in terms of size with diversified portfolio. The bank has maintained superior return ratios resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 24 lakh crore.
- Consistent performance with steady NIM and RoE in past many years

**Q4FY24 performance:** Operational performance remained steady, however, muted growth in balance sheet weighs in the quarter. Advances de-grew 0.9% QoQ, led by corporate & agri segment while retail & CRB segment witnessed marginal traction. Deposit base remained flat with substantial reduction in current deposit, which was offset by accretion in term deposits. Despite reduction in advances and decline in current deposit, margins inched up 3 bps QoQ at 3.47%. NII grew 2.6% QoQ, while other income increased 15.6% YoY. Excluding one-offs in Q1FY25, CI ratio reported at ~41%. While GNPA increased 9 bps QoQ at 1.33%, slippages remained broadly steady.

### Investment Rationale

- **Balancing between growth and LDR remains watchful:** Advance growth remained muted with sequential de-growth at 0.9% QoQ, led by de-growth in corporate book while retail & CRB book witnessed marginal traction. Strategy to emphasize on reduction in LDR ratio (currently at 103.5%) will drive focus on deposit accretion and calibration in credit growth. However, funding of incremental loans and replacement of existing borrowings remains a challenge. Expect advance growth at ~13% CAGR in FY25-26E, LDR ratio to decline below 100% and margins to improve at 3.6% in FY26E.
- **Focus to maintain operational performance:** While restructuring of balance sheet is underway, management focusses on keeping operational parameters steady. Accelerating retail & CRB loans with PSL credit in focus, gradual replacement of borrowings with deposits is expected to maintain margins at 3.4-3.6%. Focus on building distribution capabilities and adoption of digital initiatives is seen to keep CI ratio at ~40-42%. Elevated provision coverage coupled with steady slippages is seen to keep credit cost steady, thereby maintaining RoA at historical trend of 1.9-2%.

### Rating and Target Price

- Calibrated loan growth with focus on PSL and effort to shore up liabilities franchise remains core strategy to reduce LDR ratio. Replacement of borrowings and alteration in asset mix could aid margins, while steady CI ratio and credit cost remains in focus to keep operational performance steady with RoA in the range of 1.9-2.1%.
- Valuing the stock at ~2.4x FY26E ABV for standalone bank and ₹249 for subsidiaries, we maintain our target price at ₹ 1850 per share. Downgrade our rating from Buy to Hold owing to recent run up in stock.

### Key Financial Summary

₹ crore	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	72,010	86,842	1,08,532	23%	1,25,529	1,43,540	15%
PPP	64,077	70,405	94,387	21%	1,02,248	1,17,910	12%
PAT	36,961	44,109	60,812	28%	66,691	74,650	11%
ABV (I)	425.0	494.0	535.0		601.1	675.2	
P/E	24.6	20.7	20.5		18.7	16.7	
P/ABV	3.9	3.3	3.1		2.7	2.4	
RoA	2.0	2.1	2.0		1.7	1.7	
RoE	15.4	15.7	13.9		13.6	13.6	

Source: Company, ICICI Direct Research



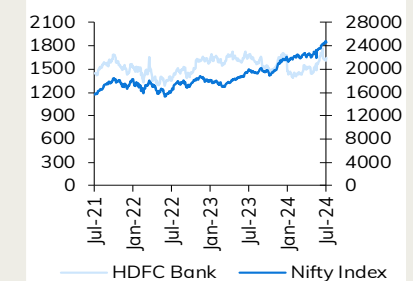
### Particulars

Particulars	Amount
Market Capitalisation	₹ 12,49,828 crore
52 week H/L	1794/1363
Network	₹ 4,37,593 crore
Face value	1.0

### Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	25.5	-	-	-	-
FII	33.4	52.1	52.3	47.8	47.2
DII	26.8	30.4	30.5	33.3	35.2
Others	14.4	17.5	17.2	18.8	17.6

### Price Chart



### Key risks

- Pace of liabilities accretion remains crucial
- Moderation in advances owing to reduction in LDR

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## Concall highlights and outlook

- Key focus medium (2 - 3 years) to long term is to increase profitability by ensuring the sustainability of the franchise and focussing on mobilising retail deposits
- HDFC Bank is a completely new organisation post the merger. Post merger, business metric has been stable and demonstrates resilience of underlying strength of the franchise. Major of the parameters - CASA 36-38%, C/I 40-41%, GNPA 1.2-1.4%, RoA 1.9-2.1% were in the given range
- Key to sustained momentum is to maintain customer satisfaction and service first culture. Thus, the bank will continue to invest in people and technology
- Credit recoveries and dividends from subsidiaries aided growth in non-interest income
- The bank has successfully integrated HDFCs products into one app for cross-selling, including home loan borrowers opening accounts. Efforts are being made to cross sell and bring all group products under one umbrella through HDFC one app
- As per new accounting standard of investments, ~₹480 crores has gone into general reserves
- While glide path for CI ratio in medium term remains unchanged at ~30%, focus remains to keep CI ratio steady in near term
- Change in liquidity conditions and non-materialization on some forbearance was against earlier expectation.
- Customer accretion remains steady at 2.2 million in Q1FY25
- HDB Finance witnessed higher credit cost driven by lower collection due to heatwave and elections. However, GNPA at 1.9% remained flat.

### Advances and deposits

- Combination of unanticipated outflows in CA and outflows of ₹160 billion from HDFC deposit which ran down has given a tepid net accretion period. Run down in CA seems to be transactional in nature.
- Pace of reduction in LDR in the current scenario could be faster as compared to earlier anticipation
- Bank remains cautious and choose to reduce pace of growth of unsecured loans
- Borrowing reduced by ₹ 600 billion in Q1FY25, of which ₹150 billion comprised of commercial paper which got matured, half of remaining ₹450 billion got matured while another half was paid ahead of maturity
- Share of repo-linked loan is ~36-37%, with mortgages at ~27% and non-mortgages at 40%
- Maturity profile of borrowing is about ₹ 650 billion for FY25, out of which ₹ 250 billion got repaid in Q1FY25
- Proportion of Small & marginal farmer stood at ~9% in March 2024. Focus remains on agri and related CRB loans owing to dual categorization (SMF & weaker section).

### Margins

- Customer relationship remains in focus to garner liabilities rather than higher rates

**Exhibit 1: SOTP Valuation**

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.4x FY26E ABV	100.00	1,602
HDFC AMC	39x FY26E EPS	52.59	69
HDFC Life Insurance	2.5x FY26E EV	50.40	105
HDFC ERGO		50.50	12
HDB fin Serv		94.60	100
HDFC Sec		95.10	25
Value per share			1,912
Discount @ 20%			62
<b>Value per share for HDFC Bank</b>			<b>1,850</b>

**Exhibit 2: Variance Analysis**

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	29,837.1	23,599.1	26.4	29,076.8	2.6	NII muted owing to marginal de-growth in advances
NIM (%)	3.47	4.1	-15.4	3.44	0.9	
Other Income	10,668.1	9,229.9	15.6	18,166.3	-41.3	Other income is mainly due to gains in fee income and dividend from subsidiaries
Net Total Income	40,505.3	32,828.9	23.4	47,243.1	-14.3	
Staff cost	5,848.9	4,782.1	22.3	6,936.2	-15.7	CI ratio at 41%
Other Operating Expenses	10,771.7	9,274.8	16.1	11,032.6	-2.4	
PPP	23,884.6	18,772.0	27.2	29,274.2	-18.4	
Provision	2,602.1	2,860.0	-9.0	13,511.6	-80.7	Provision was down 80% QoQ mainly due no additional contingency provision made in Q4FY24
PBT	21,282.6	15,912.0	33.8	15,762.6	35.0	
Tax	5,107.8	3,960.2	29.0	-749.3	-781.7	
PAT	16,174.8	11,951.8	35.3	16,511.9	-2.0	Flattish earnings owing to muted sequential performance

**Key Metrics**

GNPA	33,026	19,064	73.2	31,173	5.9	GNPA ratio increased by 9bps mainly due to NPAs in agri segment
NNPA	9,508	4,777	99.1	8,092	17.5	NNPA inched up 6 bps QoQ to 0.39%
Advances	24,63,521	16,15,672	52.5	24,84,862	-0.9	De-growth in corporates & agri; retail & CRB inched up marginally
Deposits	23,79,100	19,13,096	24.4	23,79,786	0.0	CASA ratio at 36.3%; down 190 bps QoQ

## Financial Summary

### Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Interest Earned	127753	161586	258340	301795	339259
Interest Expended	55744	74743	149808	176266	195719
NII	72010	86842	108532	125529	143540
Growth (%)	11.0	20.6	25.0	15.7	14.3
Other income	29510	31215	49241	47701	54545
Total Income	101519	118057	157773	173230	198086
Employee cost	12032	15512	22240	25112	28220
Other operating Exp.	25410	32140	41146	45870	51956
PPP	64077	70405	94387	102248	117910
Provisions	15062	11920	23492	13915	19036
PBT	49015	58485	70895	88333	98874
Taxes	12054	14377	10083	21642	24224
Net Profit	36961	44109	60812	66691	74650
Growth (%)	18.8	19.3	37.9	9.7	11.9
EPS	66.7	79.1	80.0	87.8	98.3

Source: Company, ICICI Direct Research

### Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Sources of Funds					
Capital	555	558	760	760	760
Reserves and Surplus	239538	279641	436833	490186	549906
Networth	240093	280199	437593	490946	550666
Deposits	1559217	1883395	2379786	2784350	3257689
Borrowings	184817	206766	662153	589316	524491
Other Liabilities & Provision:	84407	95722	135438	217873	322359
Total	2068535	2466081	3617623	4082485	4655206
Applications of Funds					
Fixed Assets	6084	8017	11399	12767	14299
Investments	455539	517001	702415	807461	912153
Advances	1368821	1600586	2484862	2783045	3172671
Other Assets	85765	146713	199800	229770	264236
Cash with RBI & call money	152327	193765	219147	249442	291847
Total	2068535	2466081	3617623	4082485	4655206

Source: Company, ICICI Direct Research

### Exhibit 4: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E
Valuation					
No. of Equity Shares	555.0	558.0	759.7	759.7	759.7
EPS (₹)	66.7	79.1	80.0	87.8	98.3
BV (₹)	432.6	502.1	576.0	646.2	724.9
ABV (₹)	425.0	494.0	535.0	601.1	675.2
P/E	24.6	20.7	20.5	18.7	16.7
P/BV	3.8	3.3	2.8	2.5	2.3
P/ABV	3.9	3.3	3.1	2.7	2.4
Yields & Margins (%)					
Net Interest Margins	4.1	4.1	3.4	3.5	3.6
GNPA	1.4	1.2	1.3	1.2	1.2
RoE	15.4	15.7	13.9	13.6	13.6
RoA	2.0	2.1	2.0	1.7	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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