

HDFC BANK LIMITED (HDFBAN)

CMP: ₹ 1729

Target: ₹ 1900 (10%)

Target Period: 12 months

October 21, 2024

Reduction in CD ratio in focus; performance to remain range bound

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

Q2FY25 performance: HDFC Bank reported steady performance in Q2FY25, wherein NII growth came at 10% YoY & NIM was stable at 3.46% (-1 bps QoQ). Other income rose 7.6% QoQ, backed by 15.7% gains in fee income. Provisions declined 7% YoY to ₹ 2,700 crore, with reversal of provisions related to AIFs of ₹680 crore. PAT came at ₹16,821 crore, up 5.3% YoY. While GNPA/ NNPA increased 3 bps/ 2 bps QoQ to 1.36%/ 0.41%, experience in unsecured book remain relatively superior. Advances grew at 7% YoY (1.3% QoQ) to ₹24,95,120 crore, backed by CRB (17.4% YoY) & retail (11.3% YoY) loans, while corporate witnessed de-growth amid unfavourable pricing. Deposit accretion came at 15.1% YoY (5.1% QoQ) to ₹25,00,882 crore, driven by 19.3% YoY term deposit growth, with CASA ratio at 35.3%, down 100 bps QoQ.

Investment Rationale

- **Acceleration in reduction in CD ratio to impact growth:** Bank reported sub-system advances growth of 7% YoY led by de-growth in corporate book while CRB book witnessed traction with PSL in focus. Strategy to emphasize on reduction in LDR ratio (currently at 99%) will drive focus on deposit accretion and calibration in credit growth. Management has guided lower than system growth in FY25, in-line industry growth in FY26 ad faster than system growth only in FY27E. Thus, expect advance growth at ~10.5% CAGR in FY25-27E, LDR ratio to decline below 95% in FY26E and below 90% in FY27E.
- **Focus to maintain operational performance:** Management aims to keep operational parameters and return ratios steady. Focus on building distribution capabilities through branch expansion and adoption of digital initiatives is seen to keep CI ratio (currently at 40.6%) at ~40-42%. Strategy to focus on liabilities through customer accretion & selective exposure to maintain asset quality remains prudent. Unsecured loan portfolio had resilient outcomes relative to peers, keeping credit cost under control, thereby maintaining RoA at historical trend of 1.9-2%. Expect margins to be maintained at 3.4%-3.6% range in the medium term.

Rating and Target Price

- While focus on bringing CD ratio is seen to cap growth, resilience in terms of asset quality and diverting strength in shoring up liabilities franchise will gradually improve positioning of the bank in the long run.
- Valuing the stock at ~2.2x FY27E ABV for standalone bank and ₹270 for subsidiaries, we revise our target price at ₹1900 (earlier ₹1850). Maintain out **Hold** recommendation.

Key Financial Summary

₹ crore	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-26E)
NII	72010	86842	108532	23%	123732	137439	154070	19%
PPP	64077	70405	94387	21%	100785	113620	128333	17%
PAT	36961	44109	60812	28%	66055	72293	81715	16%
ABV (I)	425.0	494.0	535.0		598.4	667.4	745.3	
P/E	26.1	22.0	21.7		20.0	18.3	16.2	
P/ABV	4.1	3.5	3.2		2.9	2.6	2.3	
RoA	2.0	2.1	2.0		1.7	1.7	1.7	
RoE	15.4	15.7	13.9		13.5	13.2	13.3	

Source: Company, ICICI Direct Research

HOLD



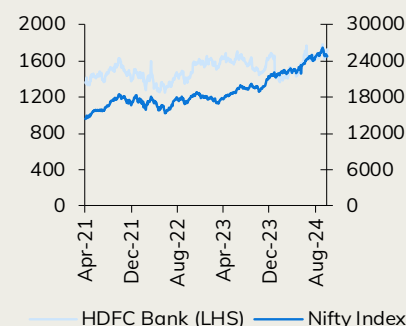
Particulars

Particulars	Amount
Market Capitalisation	₹ 13,16,271 crore
52 week H/L	1794/1323
Networth	₹ 4,56,395 crore
Face value	1.0

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	-	-	-	-	-
FII	52.1	52.3	47.8	47.2	48.0
DII	30.4	30.5	33.3	35.2	35.1
Others	17.5	17.2	18.8	17.6	16.9

Price Chart



Key risks

- Pace of liabilities accretion remains crucial
- Faster than expected decline in interest rate

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Concall highlights and outlook

- Post-merger, business metrics for HDFC Bank have been stable and demonstrate resilience of underlying strength of the franchise. Majority of the parameters - CASA 35-38%, C/I 40-41%, GNPA 1.2-1.4%, RoA 1.9-2.1% were in the given range
- Key focus in medium (2 - 3 years) to long term is to increase profitability by ensuring sustainability of the franchise and focusing on mobilizing retail deposits
- Management anticipates advances to grow slower than the systemic credit growth in FY25, at par with the system during FY26, and surpassing credit growth rate of the system only in FY27
- Fee income grew 17% YoY aided by a strong 32% surge in third party distribution. Securitization did not have an impact on fees as the excess spread is amortized over the life of the loan
- There was a reversal due to regulatory clarifications on AIF provisions, which allowed for a reduction in the required reserve, amounting to ₹680 crore lower provisions
- Profit after tax grew by an adjusted rate of 17%, reflecting strong financial performance after accounting for bond gains and tax adjustments
- The bank reported a healthy deposit growth of ~15% year on year, with retail branches contributing 84% of total deposits
- Management plans to bring back the credit-deposit ratio (C/D) to the pre-merger level of 86%-87% within two to three years, faster than initially planned (4-5 years) by calibrating loan growth, particularly in larger ticket sizes. The bank is strategically positioning itself to capture future growth opportunities by accelerating the reduction of its loan-to-deposit ratio
- The Liquidity Coverage Ratio (LCR) currently stands at 128%, driven by strong deposit growth and calibrated loan growth. The bank aims to maintain an LCR between 110-120% but will adjust based on market conditions and regulatory developments. Management anticipates slight pressure on margins in the near term owing to tough macro & liquidity environment
- Proportion of small & marginal farmer (including organic, IBPC, PTC) stood at ~9% in March 2024. Focus remains on agri and related CRB loans owing to dual categorization (SMF & weaker section)
- While glide path for CI ratio in medium term is ~30%, focus remains to keep CI ratio steady in near term which improved to 40.6% in Q2FY25.
- Operating expenditure growth slowed owing to moderation in headcount and seasonality
- Management expects to maintain NIM in a similar range in the medium term
- Credit costs largely remained flat QoQ at ~43 bps, with some stress witnessed in agri segment particularly in small & marginal farmers category and in specific geographies. Pace of unsecured retail loans was calibrated since last few quarters which has kept retail GNPA at 80 bps
- The bank is prepared to capture growth opportunities when the credit cycle turns positive, maintaining a cautious approach to underwriting.
- 69% of loans are linked to external benchmark rates with remaining 31% at fixed rate. MCLR forms a tiny piece within EBLR loans.

Exhibit 1: SOTP Valuation

Business Segment	Basis of valuation	HDFC's stake (%)	₹/share
HDFC Bank (merged)	2.2x FY27E ABV	100.00	1,630
HDFC AMC	37x FY27E EPS	52.51	81
HDFC Life Insurance	2.8x FY26E EV	50.40	120
HDFC ERGO		50.50	12
HDB fin Serv		94.60	100
HDFC Sec		95.10	25
Value per share			1,967
Discount @ 20%			67
Value per share for HDFC Bank			1,900

Exhibit 2: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	30,113.9	27,385.2	10.0	29,837.1	0.9	Deceleration in growth attributable to efforts aimed at reducing CD ratio
NIM (%)	3.46	3.4	1.8	3.47	-0.3	
Other Income	11,482.7	10,707.8	7.2	10,668.1	7.6	Rise due to 17% YoY gains in fee income
Net Total Income	41,596.6	38,093.1	9.2	40,505.3	2.7	
Staff cost	5,985.3	5,170.2	15.8	5,848.9	2.3	CI ratio declined 40 bps QoQ at 40.6%
Other Operating Expenses	10,905.6	10,229.0	6.6	10,771.7	1.2	
PPP	24,705.7	22,693.9	8.9	23,884.6	3.4	
Provision	2,700.5	2,903.8	-7.0	2,602.1	3.8	Reversal of provisions in respect of investments in AIFs to the tune of ₹680 crore
PBT	22,005.3	19,790.1	11.2	21,282.6	3.4	
Tax	5,184.3	3,813.9	35.9	5,107.8	1.5	Q2FY24 tax is net of write-back of ₹1007 crore
PAT	16,821.0	15,976.1	5.3	16,174.8	4.0	

Key Metrics

GNPA	34,251	31,578	8.5	33,026	3.7	Stress attributed to agri segment
NNPA	10,309	8,073	27.7	9,508	8.4	NNPA inched up 2 bps QoQ to 0.41%
Advances	24,95,120	23,31,233	7.0	24,63,521	1.3	De-growth in corporates & other wholesale loans; CRB witnessed growth of 17.4% YoY
Deposits	25,00,100	21,72,858	15.1	23,79,100	5.1	Term deposit accretion at 19.3% YoY

Financial Summary

Exhibit 3: Profit and loss statement

₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	127753	161586	258340	295405	328356	365364
Interest Expended	55744	74743	149808	171673	190917	211295
Nil	72010	86842	108532	123732	137439	154070
Growth (%)	11.0	20.6	25.0	14.0	11.1	12.1
Other income	29510	31215	49241	47018	53601	60087
Total Income	101519	118057	157773	170751	191040	214157
Employee cost	12032	15512	22240	24753	27312	30188
Other operating Exp.	25410	32140	41146	45213	50108	55636
PPP	64077	70405	94387	100785	113620	128333
Provisions	15062	11920	23492	13294	17867	20101
PBT	49015	58485	70895	87491	95753	108232
Taxes	12054	14377	10083	21435	23459	26517
Net Profit	36961	44109	60812	66055	72293	81715
Growth (%)	18.8	19.3	37.9	8.6	9.4	13.0
EPS	66.7	79.1	80.0	87.0	95.2	107.6

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Valuation						
No. of Equity Shares	555.0	558.0	759.7	759.7	759.7	759.7
EPS (₹)	66.7	79.1	80.0	87.0	95.2	107.6
BV (₹)	432.6	502.1	576.0	645.6	721.7	807.8
ABV (₹)	425.0	494.0	535.0	598.4	667.4	745.3
P/E	26.1	22.0	21.7	20.0	18.3	16.2
P/BV	4.0	3.5	3.0	2.7	2.4	2.2
P/ABV	4.1	3.5	3.2	2.9	2.6	2.3
Yields & Margins (%)						
Net Interest Margins	3.9%	4.4%	4.1%	3.7%	3.7%	3.7%
GNPA	1.4	1.2	1.3	1.3	1.4	1.4
RoE	15.4	15.7	13.9	13.5	13.2	13.3
RoA	2.0	2.1	2.0	1.7	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet

₹ crore

(Year-end March)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds						
Capital	555	558	760	760	760	760
Reserves and Surplus	239538	279641	436833	489678	547513	612885
Networth	240093	280199	437593	490437	548272	613644
Deposits	1559217	1883395	2379786	2760552	3202240	3746621
Borrowings	184817	206766	662153	589316	559850	587843
Other Liabilities & Provision:	84407	95722	135438	122706	161558	106570
Total	2068535	2466081	3617623	3963011	4471922	5054679
Applications of Funds						
Fixed Assets	6084	8017	11399	12767	14299	16015
Investments	455539	517001	702415	814363	928650	1049054
Advances	1368821	1600586	2484862	2658802	2977858	3350090
Other Assets	85765	146713	199800	229770	264236	303871
Cash with RBI & call money	152327	193765	219147	247310	286879	335649
Total	2068535	2466081	3617623	3963011	4471922	5054679

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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