

**BUY**

TP: Rs 1,929 | ▲ 25%

**HDFC BANK**

| Banking

| 18 October 2023

## PAT strong despite margin compression

- Q2 PAT grew 51% YoY supported by healthy other income and a lower tax rate
- NIM (R) fell 70bps QoQ due to excess liquidity at HDFC bearing a higher cost; opex was moderate and asset quality stable
- Maintain BUY with a revised TP of Rs 1,929 (vs. Rs 2,061), factoring in a +2%/-9% change in our FY24/FY25 PAT estimates

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**Deposits outpace loan growth:** HDFCB's focus on deposit mobilisation resulted in healthy 5.3% QoQ(merged basis) growth in deposits during Q2FY24 while the loan book grew 4.9%(merged basis). An increase in term deposits reduced the bank's CASA ratio to 37.6%. Retail deposit share held at 83%.

**Loan book up 4.9% QoQ:** The bank's retail book grew only 3% QoQ, contributing 51% of advances, while CRB posted strong 10% growth. The retail slowdown was due to muted growth in credit cards and personal loans while gold loans (+7.8% QoQ) and other retail loans (+7.2%) did well. In CRB, agri and business banking fared well while corporate loans grew 5.8% QoQ. Management has guided for growth in HDFC's non-individual book, which stood at ~Rs 1tn in Q2. However, considering competitive intensity, we cut our FY24/FY25 loan estimates by 1%/2% each while paring deposit estimates by 6%/8%.

**NIM contracts QoQ:** Q2 PAT increased 51% YoY to Rs 159.8bn even as NIM (R) contracted 70bps QoQ to 3.65% due to excess liquidity in merged arm HDFC that bore higher cost. However, we believe NIM has bottomed out during the quarter following the gradual consumption of excess liquidity and change in both asset and liability mix. Non-interest income grew 16% QoQ driven by a jump in treasury gains (Rs 10.4bn vs. Rs 5.5bn in Q1) leading to total income growth of 16% QoQ (+41% YoY).

**Cost moderates; asset quality stable:** The C/I ratio declined 239bps QoQ to 40.4% mainly due to the merger effect, leading to PPOP growth of 21% QoQ. Asset quality was stable despite a spike in stress from HDFC's non-individual portfolio. Slippages moved up to Rs 78bn (Rs 58bn in Q1), but GNPA/NNPA were stable at 1.3%/0.4%. Credit cost stood at 60bps and cumulative provisioning at 156% of GNPA vs. 171% in Q1.

**Maintain BUY:** Post Q2, we adjust our FY24/FY25 PAT estimates by +2%/-9% for a revised SOTP-based TP of Rs 1,929 (vs. Rs 2,061), set at an unchanged 2.9x FY25E ABV based on the Gordon Growth Model plus Rs 182/sh for subsidiaries. The bank's growth outlook remains healthy and hence we retain BUY.

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,541
Market cap	US\$ 141.4bn
Free float	100%
3M ADV	US\$ 415.9mn
52wk high/low	Rs 1,758/Rs 1,434
Promoter/FPI/DII	0%/52%/30%

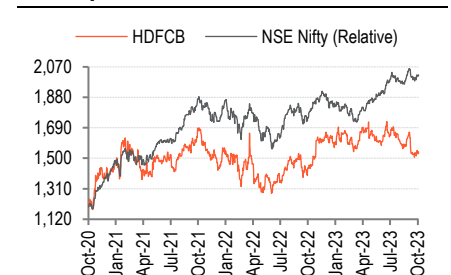
Source: NSE | Price as of 17 Oct 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	868,422	1,171,471	1,500,426
NII growth (%)	20.6	34.9	28.1
Adj. net profit (Rs mn)	441,087	595,675	750,092
EPS (Rs)	79.3	90.5	98.9
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	19.4	17.0	15.6
P/BV (x)	3.1	2.8	2.4
ROA (%)	1.9	1.9	1.9
ROE (%)	17.0	16.9	16.6

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly snapshot: Income statement**

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	304,094	336,414	356,428	380,080	542,945	78.5	42.9
Income on investments	77,019	80,392	83,764	89,112	116,395	51.1	30.6
Int. on bal. with RBI & inter-bank funds & Others	4,751	10,271	11,001	16,676	17,644	271.4	5.8
<b>Interest income</b>	<b>385,864</b>	<b>427,078</b>	<b>451,194</b>	<b>485,868</b>	<b>676,984</b>	<b>75.4</b>	<b>39.3</b>
Interest expense	175,652	197,199	217,675	249,877	403,132	129.5	61.3
<b>Net interest income</b>	<b>210,212</b>	<b>229,878</b>	<b>233,518</b>	<b>235,991</b>	<b>273,852</b>	<b>30.3</b>	<b>16.0</b>
Growth YoY (%)	18.9	24.6	23.7	21.1	30.3	1,141bps	914bps
<b>Non-interest income</b>	<b>75,956</b>	<b>84,998</b>	<b>87,312</b>	<b>92,299</b>	<b>107,078</b>	<b>41.0</b>	<b>16.0</b>
Growth YoY (%)	2.6	3.9	14.3	44.5	41.0	3,834bps	(351bps)
<b>Total Income</b>	<b>286,167</b>	<b>314,877</b>	<b>320,830</b>	<b>328,289</b>	<b>380,931</b>	<b>33.1</b>	<b>16.0</b>
Growth YoY (%)	14.1	18.3	21.0	26.9	33.1	1,904bps	621bps
Staff expenses	35,238	41,262	43,621	47,821	51,702	46.7	8.1
<b>Other operating expenses</b>	<b>77,007</b>	<b>83,374</b>	<b>91,001</b>	<b>92,748</b>	<b>102,290</b>	<b>32.8</b>	<b>10.3</b>
<b>Operating expenses</b>	<b>112,246</b>	<b>124,636</b>	<b>134,621</b>	<b>140,569</b>	<b>153,992</b>	<b>37.2</b>	<b>9.5</b>
Pre-Provisioning Profit (PPoP)	173,922	190,241	186,209	187,720	226,939	30.5	20.9
Growth YoY (%)	10.0	13.4	13.8	22.2	30.5	2,046bps	833bps
<b>Provisions</b>	<b>32,401</b>	<b>28,064</b>	<b>26,854</b>	<b>28,600</b>	<b>29,038</b>	<b>(10.4)</b>	<b>1.5</b>
Growth YoY (%)	(17.4)	(6.3)	(18.9)	(10.3)	(10.4)	706bps	(10bps)
PBT	141,520	162,176	159,355	159,120	197,901	39.8	24.4
<b>PAT</b>	<b>106,058</b>	<b>122,595</b>	<b>120,475</b>	<b>119,518</b>	<b>159,761</b>	<b>50.6</b>	<b>33.7</b>
Growth YoY (%)	20.1	18.5	19.8	30.0	50.6	3,058bps	2,067bps
<b>Per Share</b>							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	19	22	22	21	21	10.8	(1.3)
Book Value (Rs)	457	481	503	526	535	17.1	1.7

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly snapshot: Balance sheet & others**

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Deposits	16,734,080	17,332,040	18,833,947	19,130,958	21,728,578	29.8	13.6
Growth YoY (%)	19.0	19.9	20.8	19.2	29.8	1,086bps	1,063bps
Advances	14,798,732	15,068,093	16,005,859	16,156,720	23,312,329	57.5	44.3
Growth YoY (%)	23.4	19.5	16.9	15.8	57.5	3,409bps	4,172bps
Investment	5,191,159	5,272,767	5,170,014	5,657,776	7,234,359	39.4	27.9
Equity	2,546,684	2,681,001	2,807,570	2,943,738	4,057,880	59.3	37.8
Assets	22,278,934	22,953,053	24,660,815	25,016,930	34,163,102	53.3	36.6
Growth YoY (%)	20.8	18.4	19.2	18.6	53.3	3,258bps	3,477bps
<b>Yield (%)</b>							
Yield on Funds	7.52	8.03	8.08	8.35	9.70	218bps	135bps
Cost of Funds	3.84	4.13	4.32	4.75	6.43	259bps	169bps
Spread	3.68	3.91	3.77	3.61	3.26	(41bps)	(34bps)
Net Interest Margin	4.10	4.32	4.18	4.06	3.92	(17bps)	(13bps)

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
<b>Ratios (%)</b>							
Other Income / Net Income	26.5	27.0	27.2	28.1	28.1	157bps	(1bps)
Cost to Income ratio	39.2	39.6	42.0	42.8	40.4	120bps	(239bps)
CASA ratio	45.4	44.0	44.4	42.5	37.6	(777bps)	(486bps)
C/D ratio	88.4	86.9	85.0	84.5	107.3	1,885bps	2,284bps
Investment to Assets	23.3	23.0	21.0	22.6	21.2	(212bps)	(144bps)
<b>Assets Quality</b>							
GNPA	183,010	187,639	180,190	190,641	315,779	72.5	65.64
NNPA	48,827	50,243	43,684	47,769	80,728	65.3	69.0
Provision	134,183	137,396	136,506	142,873	235,051	75.2	64.5
GNPA (%)	1.23	1.23	1.12	1.17	1.34	11bps	17bps
NNPA (%)	0.33	0.33	0.27	0.30	0.35	2bps	5bps
Provision (%)	73.3	73.2	75.8	74.9	74.4	112bps	(51bps)
<b>Others (Nos.)</b>							
Branches	6,499	7,183	7,821	7,860	7,945	1,446	85
ATMs	18,868	19,007	19,727	20,352	20,596	1,728	244
Employees	161,027	166,890	173,222	181,725	197,899	36,872	16,174

Source: Company, BOBCAPS Research

**Fig 3 – Segmental loan book distribution**

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	Mix (%)
<b>Retail Loans</b>												
Home Loans	757,540	789,920	830,560	882,490	930,500	975,930	1,020,670	6,927,670	7,170,700	670.6	3.5	30.7
Loan Against Property	544,260	577,360	622,480	651,160	693,130	724,360	767,730	-	-	(100.0)	-	0.0
Auto Loans	951,950	964,260	1,004,630	1,040,030	1,087,880	1,124,420	1,174,290	1,217,320	1,255,160	15.4	3.1	5.4
Two Wheelers	97,130	92,880	92,880	91,950	95,970	97,590	99,330	103,670	109,570	14.2	5.7	0.5
Gold Loans	81,090	81,980	83,500	88,080	94,340	100,420	108,420	116,910	126,040	33.6	7.8	0.5
Personal Loans	1,263,580	1,333,990	1,401,270	1,479,280	1,548,200	1,646,410	1,716,760	1,767,340	1,786,910	15.4	1.1	7.7
Payment products	677,830	733,050	767,570	801,420	819,660	833,140	861,040	904,360	909,070	10.9	0.5	3.9
Other retail Loans	456,040	484,070	514,790	544,400	535,800	563,740	597,540	594,980	637,600	19.0	7.2	2.7
<b>Total Retail Loans</b>	<b>4,829,420</b>	<b>5,057,510</b>	<b>5,317,680</b>	<b>5,578,810</b>	<b>5,805,480</b>	<b>6,066,010</b>	<b>6,345,780</b>	<b>11,632,250</b>	<b>11,995,050</b>	<b>106.6</b>	<b>3.1</b>	<b>51.4</b>
<b>Commercial &amp; Rural Banking</b>												
Emerging Corporates	1,296,120	3,841,950	1,478,350	1,527,810	1,645,580	1,706,230	1,831,510	1,877,830	2,059,630	25.2	9.7	8.8
Business Banking	1,598,070	-	1,915,990	1,991,680	2,180,140	2,320,490	2,534,520	2,590,130	2,850,150	30.7	10.0	12.2
Commercial Transportation	696,010	-	807,570	845,370	918,900	996,840	1,108,310	1,163,950	1,237,500	34.7	6.3	5.3
Agriculture	560,040	560,310	646,450	615,790	702,780	709,120	817,190	796,370	904,870	28.8	13.6	3.9
<b>Total Commercial Rural Banking</b>	<b>4,150,240</b>	<b>4,402,260</b>	<b>4,848,360</b>	<b>4,980,650</b>	<b>5,447,400</b>	<b>5,732,680</b>	<b>6,291,530</b>	<b>6,428,280</b>	<b>7,052,150</b>	<b>29.5</b>	<b>9.7</b>	<b>30.2</b>
Corporate & Other Wholesale	3,124,230	3,261,820	3,640,110	3,639,390	3,967,790	3,922,540	4,097,120	4,046,370	4,281,090	7.9	5.8	18.4
<b>Total Gross Loan</b>	<b>12,103,890</b>	<b>12,721,590</b>	<b>13,806,150</b>	<b>14,198,850</b>	<b>15,220,670</b>	<b>15,721,230</b>	<b>16,734,430</b>	<b>22,106,900</b>	<b>23,328,290</b>	<b>53.3</b>	<b>5.5</b>	<b>100</b>

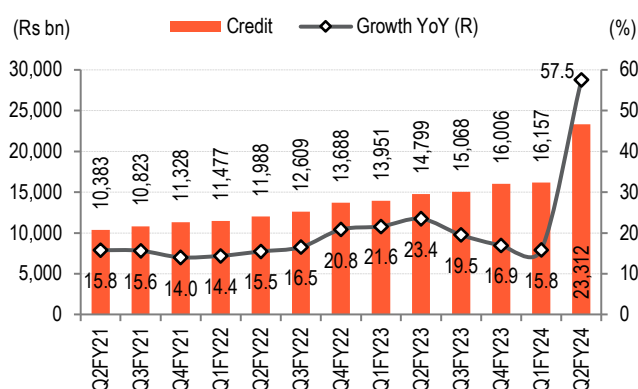
Source: Company, BOBCAPS Research

**Fig 4 – Segmental loan book distribution in percentage terms**

(%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
<b>Retail Loans</b>											
Home Loans	6.3	6.2	6.0	6.2	6.1	6.2	6.1	31.3	30.7	2,462bps	(60bps)
Loan Against Property	4.5	4.5	4.5	4.6	4.6	4.6	4.6	0.0	0.0	(455bps)	0bps
Auto Loans	7.9	7.6	7.3	7.3	7.1	7.2	7.0	5.5	5.4	(177bps)	(13bps)
Two Wheelers	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	(16bps)	0bps
Gold Loans	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	(8bps)	1bps
Personal Loans	10.4	10.5	10.1	10.4	10.2	10.5	10.3	8.0	7.7	(251bps)	(33bps)
Payment products	5.6	5.8	5.6	5.6	5.4	5.3	5.1	4.1	3.9	(149bps)	(19bps)
Other retail Loans	3.8	3.8	3.7	3.8	3.5	3.6	3.6	2.7	2.7	(79bps)	4bps
<b>Total Retail Loans</b>	<b>39.9</b>	<b>39.8</b>	<b>38.5</b>	<b>39.3</b>	<b>38.1</b>	<b>38.6</b>	<b>37.9</b>	<b>52.6</b>	<b>51.4</b>	<b>1,328bps</b>	<b>(120bps)</b>
<b>Commercial &amp; Rural Banking</b>											
Emerging Corporates	10.7	30.2	10.7	10.8	10.8	10.9	10.9	8.5	8.8	(198bps)	33bps
Business Banking	13.2	0.0	13.9	14.0	14.3	14.8	15.1	11.7	12.2	(211bps)	50bps
Commercial Transportation	5.8	0.0	5.8	6.0	6.0	6.3	6.6	5.3	5.3	(73bps)	4bps
Agriculture	4.6	4.4	4.7	4.3	4.6	4.5	4.9	3.6	3.9	(74bps)	28bps
<b>Total Commercial Rural Banking</b>	<b>34.3</b>	<b>34.6</b>	<b>35.1</b>	<b>35.1</b>	<b>35.8</b>	<b>36.5</b>	<b>37.6</b>	<b>29.1</b>	<b>30.2</b>	<b>(556bps)</b>	<b>115bps</b>
Corporate & Other Wholesale	25.8	25.6	26.4	25.6	26.1	25.0	24.5	18.3	18.4	(772bps)	5bps
<b>Total Gross Loan</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	-	-

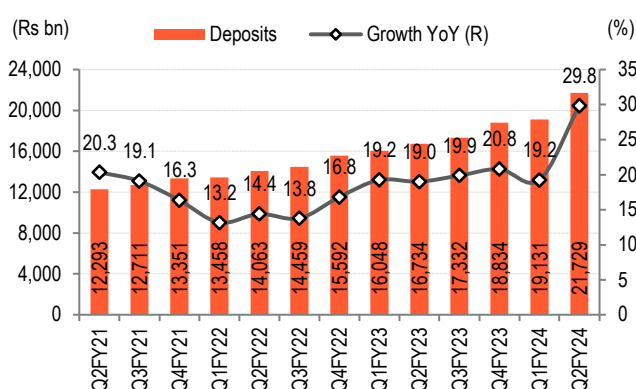
Source: Company, BOBCAPS Research

**Fig 5 – Credit grew 4.9% QoQ driven by CRB and retail**



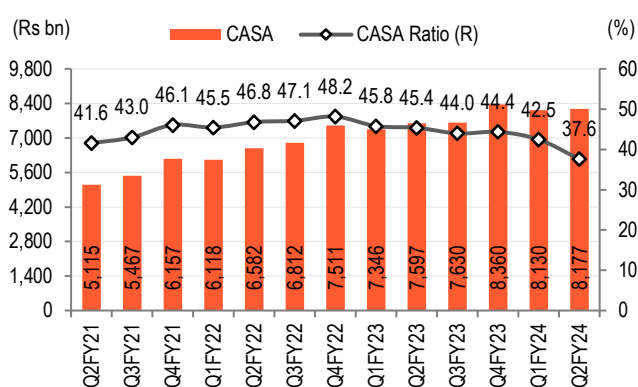
Source: Company, BOBCAPS Research

**Fig 6 – Deposits grew 5.3% QoQ, outpacing loan growth**



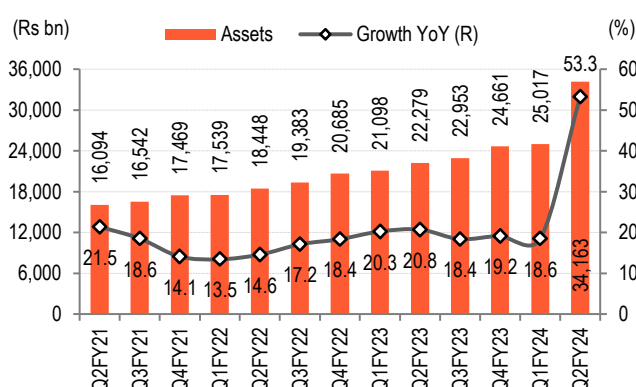
Source: Company, BOBCAPS Research

**Fig 7 – CASA was subdued due to merger impact**



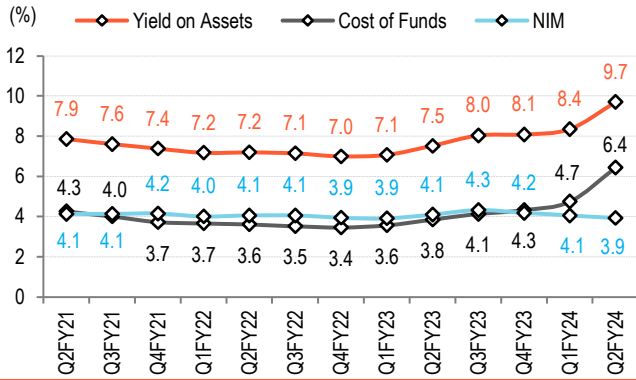
Source: Company, BOBCAPS Research

**Fig 8 – Asset growth remained strong**



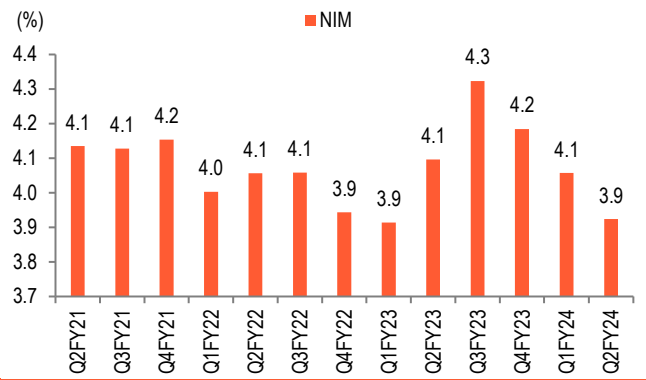
Source: Company, BOBCAPS Research

**Fig 9 – NIM (calc.) declined due to merger effect**



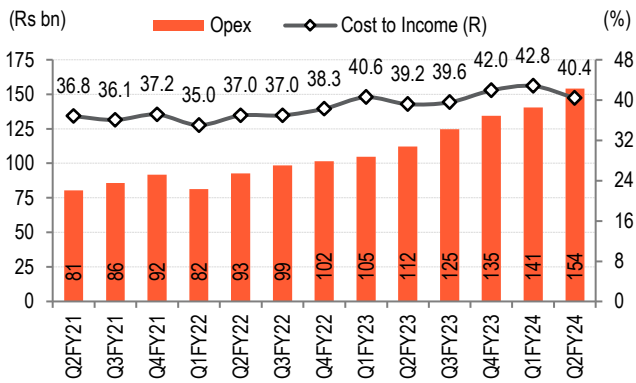
Source: Company, BOBCAPS Research

**Fig 10 – NIM (calc.) likely to have bottomed out**



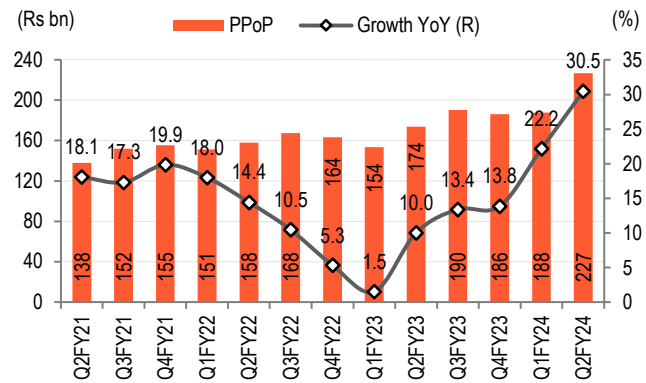
Source: Company, BOBCAPS Research

**Fig 11 – C/I moderated on merger effect**



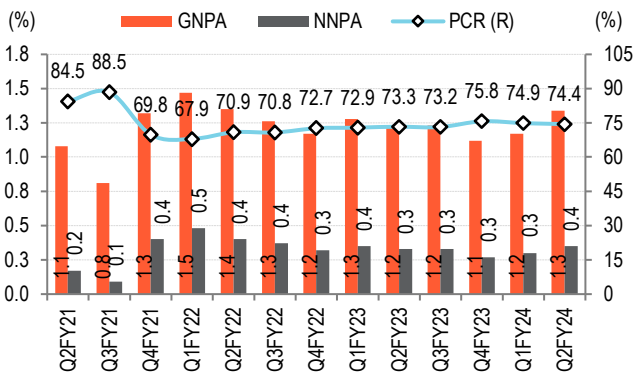
Source: Company, BOBCAPS Research

**Fig 12 – PPOP growth remained healthy**



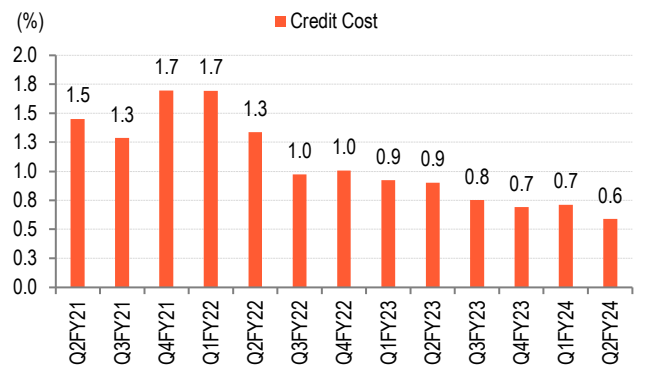
Source: Company, BOBCAPS Research

**Fig 13 – Asset quality stable QoQ**



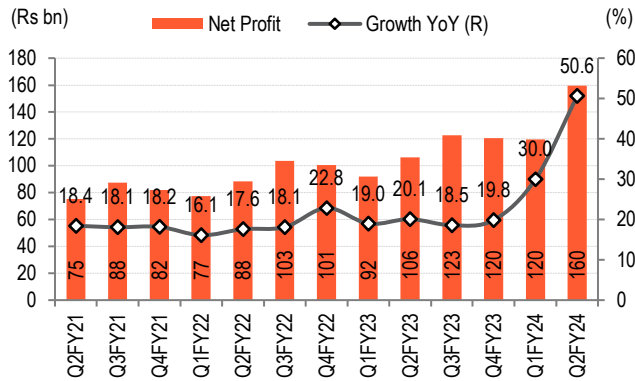
Source: Company, BOBCAPS Research

**Fig 14 – Credit cost declined sequentially**



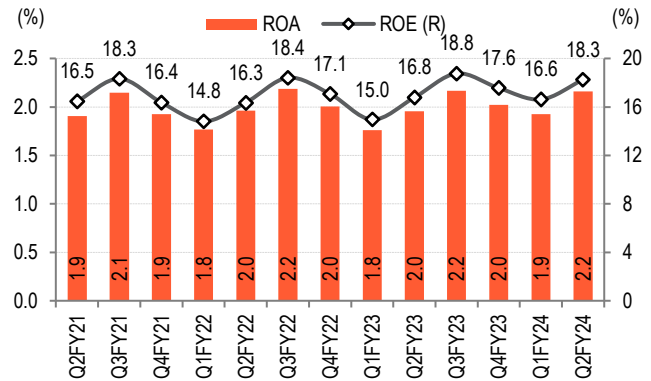
Source: Company, BOBCAPS Research

**Fig 15 – PAT growth supported by lower tax provision**



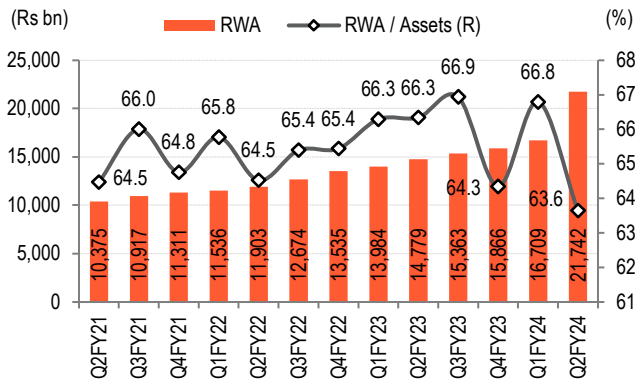
Source: Company, BOBCAPS Research

**Fig 16 – High return ratios maintained**



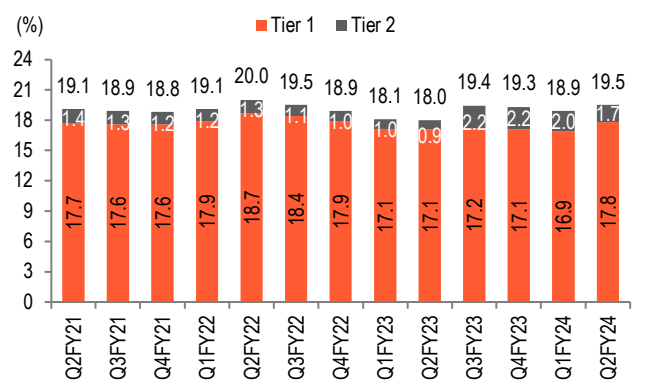
Source: Company, BOBCAPS Research

**Fig 17 – RWA/Asset stood at 64% in Q2**



Source: Company, BOBCAPS Research | RWA: Risk-Weighted Asset

**Fig 18 – Well capitalised with CAR of 19.5%**



Source: Company, BOBCAPS Research

## Earnings call takeaways

### Guidance

- HDFCB has maintained ROA guidance of 1.9-2.1% for FY24.
- The bank plans to launch its digital journey for bundling products during the quarter which it believes will aid cross-selling and customer acquisition.

### Loan book

- Loans grew 19.6% YoY (+4.9% QoQ; merged basis) in Q2FY24.
- Retail advances grew 3.1% sequentially, CRB advances were up 9.7% and the wholesale segment (excluding the non-individual loans of HDFC) grew 5.8%.
- As indicated, HDFC's non-individual loans will continue to run down and stood at Rs 1.03tn in Q2 vs. Rs 1.08 tn in Q1. The bank is planning to steadily grow this book and believes this will add to the topline and margins.
- Management aims to expand its construction finance book as well.

**Merged (HDFCB-HDFC) entity**

- Post-merger (1 Jul 2023 to 30 Sep 2023) deposits grew by Rs 1.1tn or 5.3% QoQ, converting to an annualised rate of 20-21%.
- Post-merger advances grew by Rs 1.0tn or 4.9% QoQ for an annualised rate of 19.6%.

**Deposits**

- Deposits grew 5.3% QoQ (merged basis) with term deposits rising 7.8% QoQ and retail share stable at 83%. Strong term deposit mobilisation (incremental as well as those transferred from HDFC's book) led to a CASA ratio of 37.6% vs. 42.5% in Q1FY24.
- A total of 2.7mn new liability customers were added during the quarter, totalling to 91mn.
- The bank's focus remains on retail current account deposit mobilisation to aid the deposit mix.
- The bank's average LCR during the quarter stood at 121%.

**Asset quality**

- Slippages for the quarter were at Rs 78bn (or 32bps of advances).
- Recoveries and upgrades totalled Rs 45bn (22bps) while write-offs stood at Rs 32.5bn (17bps). There was no sale to ARC during the quarter.
- PCR was at 74% with contingent and floating provisions at Rs 15.6 bn and general provisions at Rs 10.1bn. Total provisioning stood at 156% of GNPA or 109bps of advances.
- Credit cost (reported) came in at 49bps for the quarter (vs. 70bps in Q1FY24 and 87bps in Q2FY23).
- Accounts from the erstwhile HDFC tagged as NPA as per regulatory requirement can lead to some spike in stressed assets, but the bank has ample security held against them and is confident of no substantial incremental loss.
- The bank had a Rs 10bn write-back of tax provision that added to profitability.

**Opex**

- HDFCB added 85 branches, 244 ATMs and 16,174 employees during the quarter.

**Net interest margin**

- Core NIM was at 3.65% on total assets and 3.85% on interest-earning assets.
- Factoring debt-funded cost for additional liquidity and merger management, the bank reported NIM of 3.4% on total assets and 3.6% on interest-earning assets.
- Some recovery in margin could be possible by substituting high-cost bonds with deposits and shifting the loan mix towards retail.
- Deposit repricing is not yet complete, but the pace is guided to slow.

### Business & Networks

- The bank added 1.7mn credit cards (vs. 1.5mn in Q1FY24), taking the total to 18.8mn.
- HDFCB expanded its presence to 185,000 villages, in line with the target of 200,000 villages for FY24.
- Gold loan processing is now offered from 4,544 branches (+53% YoY) from 4,336 branches in Q1FY24.

### Subsidiary performance

#### HDB Financials

- HDB Financials opened 21 branches in Q2FY24, taking its network to 1,602 branches spread across 1,119 cities.
- Its loan book stood at Rs 779bn in Q2, up 5.8% QoQ and 23% YoY, with a customer base of 13.6mn.
- Stage-3 loans were at 2.4% of advances vs. 2.5% in Q1FY24 and 4.9% in Q2FY23. PCR on the stage-3 book was at 68%.
- The company reported ROA of 3.2% (flat QoQ) and ROE of 19.6% (19.4% in Q1FY24).

#### HDFC Life

- HDFC Life sold 270,000 individual policies during Q2 and had an individual weighted received premium market share of 15.7% for H1FY24.
- Premium income was at Rs 149bn, rising 12% YoY, and AUM grew 18% YoY to Rs 2.6tn.
- New business premium at Rs 71bn increased 11% YoY; value of new business at Rs 8bn was up 4% YoY.
- PAT grew 15% YoY to Rs 3.8bn and the solvency ratio stood at 194%.

#### HDFC AMC

- Quarterly average AUM totalled Rs 5.2tn, constituting 11.2% market share. About 58% of quarterly average AUM is equity oriented.
- The AMC has 7.9mn unique investors.
- Total income stood at Rs 7.7bn in Q2, net profit at Rs 4.4bn, and EPS at Rs 20.5.

#### HDFC ERGO

- Gross direct premium market share was 6.1% overall and 9.5% among private sector players.
- Retail mix in business is 55%.
- The company has a distribution network of 239 branches, 460 digital offices and 190k agents
- A total of 2.7mn policies were issued during Q2, up by 14% YoY.



- Gross written premium at Rs 53.5bn grew 8% YoY and net profit grew 33% to Rs 2.4bn. Solvency ratio stood at 191%.

#### **HDFC Securities**

- HDFC Securities reported revenue of Rs 6bn and PAT of Rs 2.1bn for the quarter.
- The company has a network of 203 branches spread across 145 cities and towns.
- The client base totalled 4.7mn as of Q2FY24 with ~94% of active clients using the digital platform.

## Valuation methodology

Considering the competitive intensity and anticipated industrywide slowdown in credit offtake, we cut our FY24/FY25 loan estimates by 1%/2% while trimming deposit estimates by 6%/8%. Though a rising share of term deposits in the mix would put pressure on NIM, we expect the gradual consumption of excess liquidity on the balance sheet along with a further change in loan mix towards the retail segment to aid margin recovery. We model for NIM (calc.) of ~4% for FY25, in line with guidance.

Non-core income is likely to stay healthy with strong traction in fee income and reversal of treasury losses. Operational cost should soften as branch expansion nears breakeven and technology investments kick in. Further, operational leverage at HDFC is likely to promote efficiencies for the merged entity. We now bake in a post-merger C/I ratio of 40%/38% for FY24/FY25 vs. 40.4% in FY23, and a PPOP growth of 39%/29% in FY24/FY25.

We do not anticipate major asset quality concerns over our forecast period and model for stable GNPA/NNPA ratios at 1.3%/0.32% for FY25 with a PCR of 75%. In our view, the bank's conservative strategy towards overall business and specifically towards asset quality via buffer provisioning (floating, contingent, and general provisions formed 156% of GNPA in Q2) will effectively rein in credit cost at 90bps and 95bps for FY24 and FY25 respectively.

Following the Q2FY24 results, we adjust our FY24/FY25 PAT estimates by +2%/-9%. PAT is now forecast to clock a 30.4% CAGR over FY23-FY25 (vs. 37% earlier), with ROA/ROE of 1.9%/16.6% in FY25. In terms of CAR, HDFCB remains well capitalised at 19.5% wherein CET-1 stands at 17.3% (as on Q2FY24). We expect CAR to remain healthy at 18.2% with CET-1 at 17% for FY25. Strong capitalisation would offer scope to garner higher business share.

Given the bank's healthy growth outlook, we retain BUY. Following our estimate revision, we have a new SOTP-based TP of Rs 1,929 (vs. Rs 2,061), set at an unchanged 2.9x FY25E ABV based on the Gordon Growth Model and add Rs 182/sh as the value of subsidiaries.

**Fig 19 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	25,609,374	29,758,093	25,929,492	30,363,435	(1.2)	(2.0)
Deposits	23,580,101	28,107,480	25,049,149	30,685,207	(5.9)	(8.4)
Assets	37,322,443	41,683,389	37,434,319	44,087,438	(0.3)	(5.5)
Nil	1,171,471	1,500,426	1,158,155	1,573,076	1.1	(4.6)
PPOP	980,965	1,266,146	961,678	1,361,843	2.0	(7.0)
Provision	184,608	263,349	188,709	270,206	(2.2)	(2.5)
PAT	595,675	750,092	585,137	823,094	1.8	(8.9)

Source: BOBCAPS Research

**Fig 20 – Key operational assumptions**

	FY23	FY24E	FY25E	FY26E
Advances (Growth YoY %)	16.9	60.0	16.2	16.2
Net Interest Income (Growth YoY %)	20.6	34.9	28.1	17.7
PPoP (Growth YoY %)	9.9	39.3	29.1	16.9
PAT (Growth YoY %)	19.3	35.0	25.9	17.1
NIM (%)	4.1	4.0	4.0	4.1
GNPA (%)	1.1	1.2	1.3	1.3
CAR (%)	19.3	18.3	18.2	17.7

Source: Company, BOBCAPS Research

**Fig 21 – Valuation assumptions**

Gordon growth model	Assumptions
Risk-free rate (%)	6.4
Equity risk premium (%)	5.1
Beta	1.2
Cost of equity (%)	12.6
Blended ROE (%)	17.1
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	8.6
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	2.9

Source: Company, BOBCAPS Research

**Fig 22 – Valuation summary**

Business	Valuation	Holdings	Rs/Share
HDFC Bank	2.9x FY25E ABV	100	1,747
HDFC Life	Mcap	50.4	83
HDFC AMC	Mcap	52.6	39
HDFC Ergo	35x FY25E EPS	50.5	18
HDB Financials	1.7x FY25E ABV	94.9	30
HDFC Securities	12x FY25E EPS	95.6	13
<b>Total</b>	-	-	<b>1,929</b>

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- a weak demand environment leading to a general slowdown in credit offtake, and
- unexpected asset quality shocks leading to higher credit cost.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	37.7	1,008	1,155	BUY
DCB Bank	DCBB IN	0.5	126	144	BUY
Federal Bank	FB IN	3.8	148	165	BUY
HDFC Bank	HDFCB IN	141.4	1,541	1,929	BUY
ICICI Bank	ICICIB IN	81.1	954	1,015	HOLD
Indusind Bank	IIB IN	13.6	1,436	1,755	BUY
Kotak Mahindra Bank	KMB IN	42.8	1,772	2,122	HOLD
RBL Bank	RBK IN	1.8	246	233	HOLD
State Bank of India	SBIN IN	62.6	576	729	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Oct 2023

## Glossary

Glossary of Abbreviations			
<b>AUCA</b>	Advance Under Collection Account	<b>LCR</b>	Liquidity Coverage Ratio
<b>ARC</b>	Asset Reconstruction Company	<b>MCLR</b>	Marginal Cost of Funds-based Lending Rate
<b>BRDS</b>	Bills Rediscounting Scheme	<b>MTM</b>	Mark to Market
<b>CASA</b>	Current Account and Savings Account	<b>NII</b>	Net Interest Income
<b>CAR</b>	Capital Adequacy Ratio	<b>NIM</b>	Net Interest Margin
<b>CET1</b>	Common Equity Tier 1	<b>NNPA</b>	Net Non-Performing Assets
<b>CD</b>	Credit-Deposit Ratio	<b>PCR</b>	Provision Coverage Ratio
<b>C/I</b>	Cost-Income Ratio	<b>PPOP</b>	Pre-Provision Operating Profit
<b>CRB</b>	Commercial and Rural Banking	<b>PSU</b>	Public Sector Unit
<b>EBLR</b>	External Benchmark-based Lending Rate	<b>RWA</b>	Risk-weighted Assets
<b>ECL</b>	Expected Credit Loss	<b>SLR</b>	Statutory Liquidity Ratio
<b>GNPA</b>	Gross Non-Performing Assets	<b>SMA</b>	Special Mention Account
<b>IBPC</b>	Interbank Participation Certificate	<b>SME</b>	Small and Medium-sized Enterprises

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Net interest income</b>	<b>720,096</b>	<b>868,422</b>	<b>1,171,471</b>	<b>1,500,426</b>	<b>1,765,468</b>
Nil growth (%)	11.0	20.6	34.9	28.1	17.7
Non-interest income	295,099	312,148	464,122	556,991	634,656
Total income	1,015,195	1,180,570	1,635,593	2,057,417	2,400,125
Operating expenses	374,422	476,521	654,628	791,271	920,348
PPOP	640,773	704,050	980,965	1,266,146	1,479,777
PPOP growth (%)	11.7	9.9	39.3	29.1	16.9
Provisions	150,618	119,197	184,608	263,349	305,128
PBT	490,155	584,853	796,357	1,002,797	1,174,649
Tax	120,541	143,766	200,682	252,705	296,011
<b>Reported net profit</b>	<b>369,614</b>	<b>441,087</b>	<b>595,675</b>	<b>750,092</b>	<b>878,637</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>369,614</b>	<b>441,087</b>	<b>595,675</b>	<b>750,092</b>	<b>878,637</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	5,546	5,580	7,582	7,582	7,582
Reserves & surplus	2,395,384	2,796,410	4,229,739	4,807,310	5,483,861
Net worth	2,400,929	2,801,990	4,237,321	4,814,892	5,491,443
Deposits	15,592,174	18,833,946	23,580,101	28,107,480	33,166,827
Borrowings	1,848,172	2,067,656	6,368,379	6,177,328	5,992,008
Other liab. & provisions	844,075	957,222	3,136,642	2,583,688	3,688,530
<b>Total liab. &amp; equities</b>	<b>20,685,350</b>	<b>24,660,815</b>	<b>37,322,443</b>	<b>41,683,389</b>	<b>48,338,808</b>
Cash & bank balance	1,523,269	1,937,651	1,800,386	2,248,410	2,665,432
Investments	4,555,357	5,170,014	7,990,948	7,804,345	8,923,403
Advances	13,688,209	16,005,859	25,609,374	29,758,093	34,578,904
Fixed & Other assets	918,514	1,547,291	1,921,734	1,872,541	2,171,068
<b>Total assets</b>	<b>20,685,350</b>	<b>24,660,815</b>	<b>37,322,443</b>	<b>41,683,389</b>	<b>48,338,808</b>
Deposit growth (%)	16.8	20.8	25.2	19.2	18.0
Advances growth (%)	20.8	16.9	60.0	16.2	16.2

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	66.8	79.3	90.5	98.9	115.9
Dividend per share	6.5	19.0	18.9	22.8	26.7
Book value per share	432.9	502.2	558.9	635.1	724.3

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	23.1	19.4	17.0	15.6	13.3
P/BV	3.6	3.1	2.8	2.4	2.1
Dividend yield (%)	0.4	1.2	1.2	1.5	1.7

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	3.8	3.8	3.8	3.8	3.9
Non-interest income	1.5	1.4	1.5	1.4	1.4
Operating expenses	2.0	2.1	2.1	2.0	2.0
Pre-provisioning profit	3.4	3.1	3.2	3.2	3.3
Provisions	0.8	0.5	0.6	0.7	0.7
PBT	2.6	2.6	2.6	2.5	2.6
Tax	0.6	0.6	0.6	0.6	0.7
ROA	1.9	1.9	1.9	1.9	2.0
Leverage (x)	8.6	8.7	8.8	8.7	8.7
ROE	16.7	17.0	16.9	16.6	17.1

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Net interest income	11.0	20.6	34.9	28.1	17.7
Pre-provisioning profit	11.7	9.9	39.3	29.1	16.9
EPS	18.1	18.6	14.2	9.3	17.1
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.9	4.1	4.0	4.0	4.1
Fees / Avg. assets	1.0	1.1	1.0	1.0	1.0
Cost-Income	36.9	40.4	40.0	38.5	38.3
ROE	16.7	17.0	16.9	16.6	17.1
ROA	1.9	1.9	1.9	1.9	2.0
<b>Asset quality (%)</b>					
GNPA	1.2	1.1	1.2	1.3	1.3
NNPA	0.3	0.3	0.3	0.3	0.3
Slippage ratio	2.4	1.8	2.0	1.8	1.7
Credit cost	1.2	0.8	0.9	1.0	0.9
Provision coverage	72.7	75.8	75.0	75.0	75.0
<b>Ratios (%)</b>					
Credit-Deposit	87.8	85.0	108.6	105.9	104.3
Investment-Deposit	29.2	27.5	33.9	27.8	26.9
CAR	18.9	19.3	18.3	18.2	17.7
Tier-1	17.9	17.1	16.9	17.0	16.6

Source: Company, BOBCAPS Research

## Proforma financials post-merger

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Net interest income</b>	<b>648,796</b>	<b>720,096</b>	<b>868,422</b>	<b>1,158,155</b>	<b>1,573,076</b>
<i>Nil growth (%)</i>	5.3%	11.0%	20.6%	33.4%	35.8%
Non-interest income	252,049	295,099	312,148	391,199	513,587
Total income	900,845	1,015,195	1,180,571	1,549,354	2,086,663
Operating expenses	327,226	374,422	476,521	587,677	724,820
PPOP	573,618	640,773	704,050	961,678	1,361,843
<i>PPOP growth (%)</i>	17.7%	11.7%	9.9%	36.6%	41.6%
Provisions	157,029	150,618	119,197	188,709	270,206
PBT	416,590	490,155	584,853	772,969	1,091,637
Tax	105,425	120,541	143,766	187,831	268,543
<b>Reported net profit</b>	<b>311,165</b>	<b>369,614</b>	<b>441,087</b>	<b>585,137</b>	<b>823,094</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>311,165</b>	<b>369,614</b>	<b>441,087</b>	<b>585,137</b>	<b>823,094</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity capital	5,513	5,546	5,580	7,538	7,538
Reserves & surplus	2,031,695	2,395,384	2,796,411	4,588,996	5,231,009
Net worth	2,037,208	2,400,929	2,801,990	4,596,533	5,238,547
Deposits	13,350,602	15,592,174	18,833,947	25,049,149	30,685,207
Borrowings	1,354,873	1,848,172	2,067,656	6,814,555	7,223,428
Other liab. & provisions	726,022	844,075	957,223	974,082	940,255
<b>Total liab. &amp; equities</b>	<b>17,468,705</b>	<b>20,685,350</b>	<b>24,660,815</b>	<b>37,434,319</b>	<b>44,087,438</b>
Cash & bank balance	1,194,704	1,523,269	1,937,651	1,961,348	2,402,652
Investments	4,437,283	4,555,357	5,170,014	7,647,289	9,098,073
Advances	11,328,366	13,688,209	16,005,859	25,929,492	30,363,435
Fixed & Other assets	508,352	918,515	1,547,291	1,896,190	2,223,279
<b>Total assets</b>	<b>17,468,705</b>	<b>20,685,351</b>	<b>24,660,815</b>	<b>37,434,319</b>	<b>44,087,438</b>
Deposit growth (%)	16.3	16.8	20.8	33.0	22.5
Advances growth (%)	14.0	20.8	16.9	62.0	17.1

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
EPS	19.1	22.0	21.6	77.6	109.2
Dividend per share	6.5	15.5	19.0	17.1	24.0
Book value per share	369.5	432.9	502.2	609.8	695.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
P/E	29.6	25.1	21.2	21.6	15.4
P/BV	4.5	3.9	3.3	2.8	2.4
Dividend yield (%)	0.4	0.9	1.1	1.0	1.4

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Net interest income	4.0	3.8	3.8	3.7	3.9
Non-interest income	1.5	1.5	1.4	1.3	1.3
Operating expenses	2.0	2.0	2.1	1.9	1.8
Pre-provisioning profit	3.5	3.4	3.1	3.1	3.3
Provisions	1.0	0.8	0.5	0.6	0.7
PBT	2.5	2.6	2.6	2.5	2.7
Tax	0.6	0.6	0.6	0.6	0.7
ROA	1.9	1.9	1.9	1.9	2.0
Leverage (x)	8.7	8.6	8.7	8.4	8.3
ROE	16.6	16.7	17.0	15.8	16.7

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Net interest income	15.5	11.0	20.6	33.4	35.8
Pre-provisioning profit	17.7	11.7	9.9	36.6	41.6
EPS	15.1	15.3	-1.8	259.4	40.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	4.1	3.9	4.1	3.9	4.1
Fees / Avg. assets	1.0	1.0	1.1	0.9	0.9
Cost-Income	36.3	36.9	40.4	37.9	34.7
ROE	16.6	16.7	17.0	15.8	16.7
ROA	1.9	1.9	1.9	1.9	2.0
<b>Asset quality (%)</b>					
GNPA	1.3	1.2	1.1	1.3	1.2
NNPA	0.4	0.3	0.3	0.4	0.3
Slippage ratio	1.6	2.4	1.8	1.8	1.8
Credit cost	1.5	1.2	0.8	0.9	1.0
Provision coverage	72.0	69.8	72.7	72.0	72.0
<b>Ratios (%)</b>					
Credit-Deposit	84.9	87.8	85.0	103.5	99.0
Investment-Deposit	33.2	29.2	27.5	30.5	29.6
CAR	18.0	19.4	19.3	19.7	18.8
Tier-1	17.1	17.2	17.1	17.1	16.5

Source: Company, BOBCAPS Research

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## Disclaimer

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

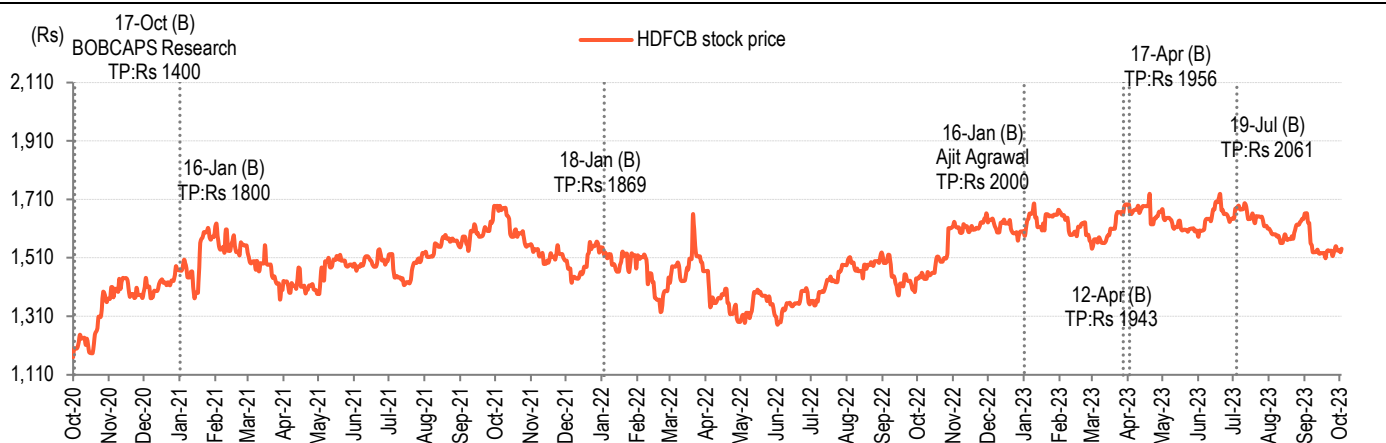
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): HDFC BANK (HDFCB IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

#### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

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