

BUY
 TP: Rs 1,896 | ▲ 23%

HDFC BANK

| Banking

| 17 January 2024

Margin pressure dampens performance

- **Operationally weak December quarter due to elevated cost of funds and increased provisions**
- **Reported NIM flat QoQ at 3.6% and PAT up only 2.5% QoQ to Rs 164bn; asset quality stable**
- **Maintain BUY with TP revised to Rs 1,896 (vs. Rs 1,929) as we adjust FY24/FY25 PAT estimates by -6%/+1% and roll valuations over**

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Deposit mobilisation sluggish: HDFCB is facing challenges in mobilising low-cost CASA deposits even as term deposit rates continue to rise, which limited its deposit growth to just 1.9% QoQ in Q3FY24. However, the loan book grew at a healthy 4.9% QoQ supported by the retail segments. The retail book increased only 3.3% QoQ and wholesale loans were muted at 1.9%, whereas CRB posted healthy growth of 6.7%. The bank’s CD ratio reached an all-time high of 110% while LCR at 110% was at the lower end, which leaves few margin levers.

NIM flat QoQ: Reported NIM was flat sequentially at 3.6% due to a high cost of funds, despite management’s stated focus on raising margins post-merger with HDFC. Although HDFCB is hopeful of a rising share of CASA (currently at 37.9% of deposits) and favourable changes in the borrowing mix (e.g. infrastructure bonds), we believe this would be a gradual process. Challenges to margins may compel the bank to focus on high-yielding retail loans (ex-mortgage), which contribute 19% of advances post-merger vs. 27% pre-merger.

Credit cost rises, asset quality stable: Though the C/I ratio declined 13bps QoQ in Q3, the bank’s prudent provisioning of Rs 12.2bn towards AIFs increased credit costs for the quarter. Ex-contingent provisions, credit cost was flat QoQ. Cumulative provisioning stood at 159% of GNPA vs. 171% in Q2. Asset quality was stable with GNPA/NNPA of 1.26%/0.31% vs. 1.34%/0.35% in Q2FY24. Further, a tax writeback of Rs 15bn supported PAT growth of 33.5% YoY (+2.5% QoQ).

Maintain BUY: We revise our FY24/FY25 PAT estimates by -6%/+1% to bake in the results, besides introducing FY26 forecasts and rolling valuations forward to Mar’26E. This yields a revised SOTP-based TP of Rs 1,896 (vs. Rs 1929), where we value the core business at 2.4x FY26E ABV (vs. 2.9x FY25E ABV) based on the Gordon Growth Model and include Rs 223/sh for subsidiaries. Although the bank’s growth outlook remains healthy, margin improvement would be key to watch.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,538
Market cap	US\$ 141.0bn
Free float	100%
3M ADV	US\$ 317.3mn
52wk high/low	Rs 1,758/Rs 1,460
Promoter/FPI/DII	0%/52%/31%

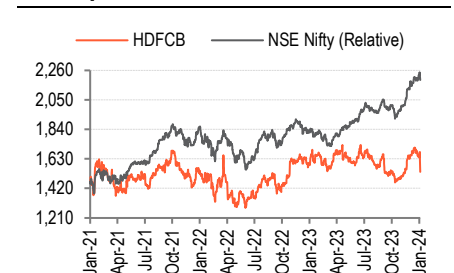
Source: NSE | Price as of 17 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	868,422	1,074,938	1,420,161
NII growth (%)	20.6	23.8	32.1
Adj. net profit (Rs mn)	441,087	557,489	757,275
EPS (Rs)	79.3	84.6	99.7
Consensus EPS (Rs)	79.3	92.0	106.0
P/E (x)	19.4	18.2	15.4
P/BV (x)	3.1	2.8	2.4
ROA (%)	1.9	1.8	2.0
ROE (%)	17.0	15.9	16.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Income Statement							
Interest Income	336,414	356,428	380,080	542,945	567,726	68.8	4.6
Income on investments	80,392	83,764	89,112	116,395	122,158	52.0	5.0
Int. on bal. with RBI & inter-bank funds & Others	10,271	11,001	16,676	17,644	15,943	55.2	(9.6)
Interest income	427,078	451,194	485,868	676,984	705,826	65.3	4.3
Interest expense	197,199	217,675	249,877	403,132	421,113	113.5	4.5
Net interest income	229,878	233,518	235,991	273,852	284,713	23.9	4.0
Growth YoY (%)	24.6	23.7	21.1	30.3	23.9	(79bps)	(642bps)
Fee Income	60,526	66,281	62,900	69,360	69,400	14.7	0.1
Trading gains/(losses)	2,614	(377)	5,520	10,410	14,700	462.4	41.2
Forex Income	10,105	13,090	12,210	12,100	18,969	87.7	56.8
Others	11,753	8,318	11,669	15,208	8,301	(29.4)	(45.4)
Non-interest income	84,998	87,312	92,299	107,078	111,370	31.0	4.0
Growth YoY (%)	3.9	14.3	44.5	41.0	31.0	2,716bps	(995bps)
Total Income	314,877	320,830	328,289	380,931	396,084	25.8	4.0
Growth YoY (%)	18.3	21.0	26.9	33.1	25.8	754bps	(732bps)
Staff expenses	41,262	43,621	47,821	51,702	53,518	29.7	3.5
Other operating expenses	83,374	91,001	92,748	102,290	106,093	27.3	3.7
Operating expenses	124,636	134,621	140,569	153,992	159,611	28.1	3.6
Pre-Provisioning Profit (PPoP)	190,241	186,209	187,720	226,939	236,473	24.3	4.2
Growth YoY (%)	13.4	13.8	22.2	30.5	24.3	1,090bps	(618bps)
Provisions	28,064	26,854	28,600	29,038	42,166	50.2	45.2
Growth YoY (%)	(6.3)	(18.9)	(10.3)	(10.4)	50.2	5,651bps	6,063bps
PBT	162,176	159,355	159,120	197,901	194,307	19.8	(1.8)
Tax	39,581	38,881	39,602	38,139	30,581	(22.7)	(19.8)
PAT	122,595	120,475	119,518	159,761	163,725	33.5	2.5
Growth YoY (%)	18.5	19.8	30.0	50.6	33.5	1,501bps	(1,709bps)
Per Share							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	22	22	21	21	22	(1.9)	2.1
Book Value (Rs)	481	503	526	535	557	15.9	4.1

Source: Company, BOBCAPS Research

Fig 2 – Quarterly snapshot: Balance sheet & other key metrics

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Deposits	17,332,040	18,833,947	19,130,958	21,728,578	22,139,770	27.7	1.9
Growth YoY (%)	19.9	20.8	19.2	29.8	27.7	787bps	(211bps)
Advances	15,068,093	16,005,859	16,156,720	23,312,329	24,460,757	62.3	4.9
Growth YoY (%)	19.5	16.9	15.8	57.5	62.3	4,283bps	481bps
Investment	5,272,767	5,170,014	5,657,776	7,234,359	6,749,314	28.0	(6.7)
Equity	2,681,001	2,807,570	2,943,738	4,057,880	4,230,591	57.8	4.3
Assets	22,953,053	24,660,815	25,016,930	34,163,102	34,926,389	52.2	2.2
Growth YoY (%)	18.4	19.2	18.6	53.3	52.2	3,375bps	(118bps)

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Yield (%)							
Yield on Funds	8.03	8.08	8.35	9.70	8.63	60bps	(107bps)
Cost of Funds	4.13	4.32	4.75	6.43	5.77	164bps	(67bps)
Spread	3.91	3.77	3.61	3.26	2.87	(104bps)	(40bps)
Net Interest Margin (calc.)	4.32	4.18	4.06	3.92	3.48	(84bps)	(44bps)
Ratios (%)							
Other Income / Net Income	27.0	27.2	28.1	28.1	28.1	112bps	1bps
Cost to Income ratio	39.6	42.0	42.8	40.4	40.3	71bps	(13bps)
CASA ratio	44.0	44.4	42.5	37.6	37.9	(614bps)	25bps
C/D ratio	86.9	85.0	84.5	107.3	110.5	2,355bps	319bps
Investment to Assets	23.0	21.0	22.6	21.2	19.3	(365bps)	(185bps)
Assets Quality							
GNPA	187,639	180,190	190,641	315,779	310,117	65.3	(1.8)
NNPA	50,243	43,684	47,769	80,728	76,641	52.5	(5.1)
Provision	137,396	136,506	142,873	235,051	233,476	69.9	(0.7)
GNPA (%)	1.23	1.12	1.17	1.34	1.26	3bps	(8bps)
NNPA (%)	0.33	0.27	0.30	0.35	0.31	(2bps)	(4bps)
PCR (%)	73.2	75.8	74.9	74.4	75.3	206bps	85bps
Others (Nos.)							
Branches	7,183	7,821	7,860	7,945	8,091	908	146
ATMs	19,007	19,727	20,352	20,596	20,688	1,681	92
Employees	166,890	173,222	181,725	197,899	208,066	41,176	10,167

Source: Company, BOBCAPS Research

Fig 3 – Segmental loan book distribution

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)	Mix (%)
Retail Loans												
Home Loans	789,920	830,560	882,490	930,500	975,930	1,020,670	6,927,670	7,170,700	7,433,000	661.6	3.7	30.6
Loan Against Property	577,360	622,480	651,160	693,130	724,360	767,730	-	-	-	(100.0)	-	0.0
Auto Loans	964,260	1,004,630	1,040,030	1,087,880	1,124,420	1,174,290	1,217,320	1,255,160	1,280,000	13.8	2.0	5.3
Two Wheelers	92,880	92,880	91,950	95,970	97,590	99,330	103,670	109,570	113,000	15.8	3.1	0.5
Gold Loans	81,980	83,500	88,080	94,340	100,420	108,420	116,910	126,040	131,000	30.5	3.9	0.5
Personal Loans	1,333,990	1,401,270	1,479,280	1,548,200	1,646,410	1,716,760	1,767,340	1,786,910	1,815,000	10.2	1.6	7.5
Payment products	733,050	767,570	801,420	819,660	833,140	861,040	904,360	909,070	971,000	16.5	6.8	4.0
Other retail Loans	484,070	514,790	544,400	535,800	411,000	597,540	594,980	445,000	446,000	8.5	0.2	1.8
Total Retail Loans	5,057,510	5,317,680	5,578,810	5,805,480	5,913,270	6,345,780	11,632,250	11,802,450	12,189,000	106.1	3.3	50.2
Commercial & Rural Banking												
Emerging Corporates	3,841,950	1,478,350	1,527,810	1,645,580	1,706,230	1,831,510	1,877,830	2,059,630	2,212,000	29.6	7.4	9.1
Business Banking	-	1,915,990	1,991,680	2,180,140	2,320,490	2,534,520	2,590,130	2,850,150	3,068,000	32.2	7.6	12.6
Commercial Transportation	-	807,570	845,370	918,900	996,840	1,108,310	1,163,950	1,237,500	1,313,000	31.7	6.1	5.4
Agriculture	560,310	646,450	615,790	702,780	709,120	817,190	796,370	904,870	930,000	31.1	2.8	3.8
Total Commercial Rural Banking	4,402,260	4,848,360	4,980,650	5,447,400	5,885,680	6,291,530	6,428,280	7,244,150	7,730,000	31.3	6.7	31.8
Corporate & Other Wholesale	3,261,820	3,640,110	3,639,390	3,967,790	3,922,540	4,097,120	4,046,370	4,281,090	4,363,000	11.2	1.9	18.0
Total Gross Loan	12,721,590	13,806,150	14,198,850	15,220,670	15,721,490	16,734,430	22,106,900	23,327,690	24,282,000	54.5	4.1	100

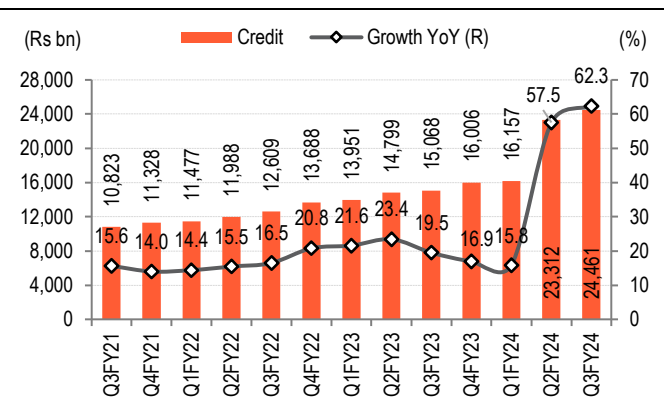
Source: Company, BOBCAPS Research

Fig 4 – Segmental loan book distribution in percentage terms

(%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Retail Loans											
Home Loans	6.2	6.0	6.2	6.1	6.2	6.1	31.3	30.7	30.6	2,440bps	(13bps)
Loan Against Property	4.5	4.5	4.6	4.6	4.6	4.6	0.0	0.0	0.0	(461bps)	0bps
Auto Loans	7.6	7.3	7.3	7.1	7.2	7.0	5.5	5.4	5.3	(188bps)	(11bps)
Two Wheelers	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	(16bps)	0bps
Gold Loans	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	(10bps)	0bps
Personal Loans	10.5	10.1	10.4	10.2	10.5	10.3	8.0	7.7	7.5	(300bps)	(19bps)
Payment products	5.8	5.6	5.6	5.4	5.3	5.1	4.1	3.9	4.0	(130bps)	10bps
Other retail Loans	3.8	3.7	3.8	3.5	2.6	3.6	2.7	1.9	1.8	(78bps)	(7bps)
Total Retail Loans	39.8	38.5	39.3	38.1	37.6	37.9	52.6	50.6	50.2	1,259bps	(40bps)
Commercial & Rural Banking											
Emerging Corporates	30.2	10.7	10.8	10.8	10.9	10.9	8.5	8.8	9.1	(174bps)	28bps
Business Banking	0.0	13.9	14.0	14.3	14.8	15.1	11.7	12.2	12.6	(213bps)	42bps
Commercial Transportation	0.0	5.8	6.0	6.0	6.3	6.6	5.3	5.3	5.4	(93bps)	10bps
Agriculture	4.4	4.7	4.3	4.6	4.5	4.9	3.6	3.9	3.8	(68bps)	(5bps)
Total Commercial Rural Banking	34.6	35.1	35.1	35.8	37.4	37.6	29.1	31.1	31.8	(560bps)	78bps
Corporate & Other Wholesale	25.6	26.4	25.6	26.1	25.0	24.5	18.3	18.4	18.0	(698bps)	(38bps)
Total Gross Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

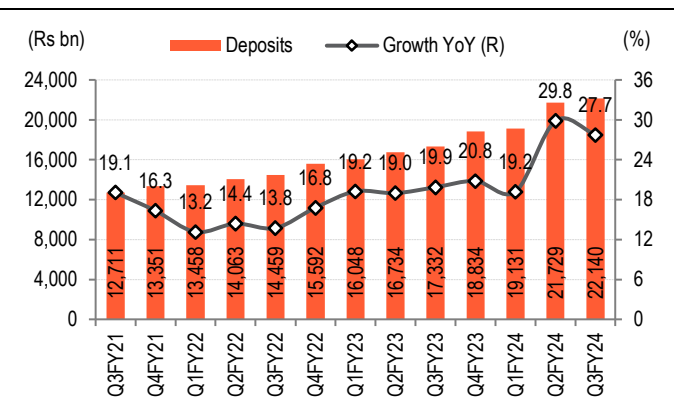
Source: Company, BOBCAPS Research

Fig 5 – Credit grew 4.9% QoQ driven by CRB



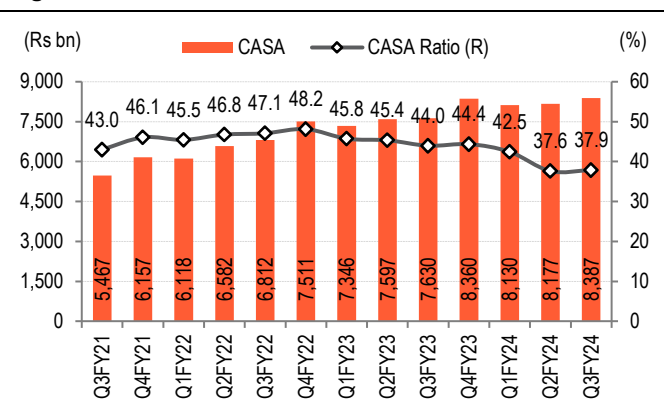
Source: Company, BOBCAPS Research

Fig 6 – Deposits remained muted with 1.9% QoQ growth



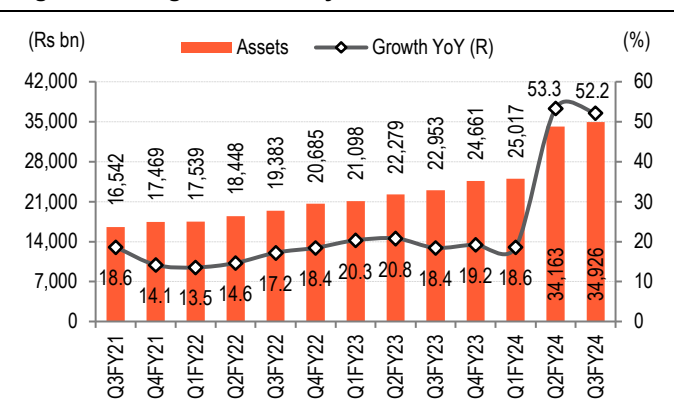
Source: Company, BOBCAPS Research

Fig 7 – CASA still subdued



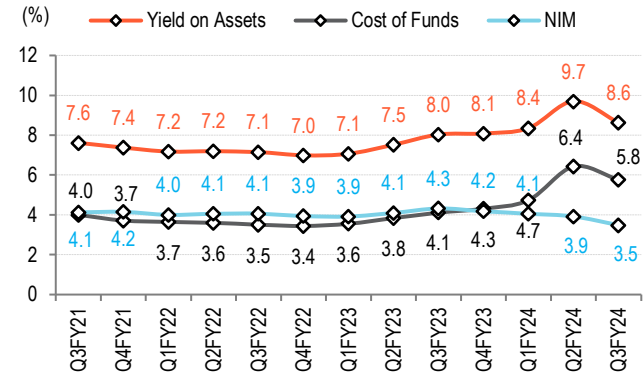
Source: Company, BOBCAPS Research

Fig 8 – Asset growth healthy



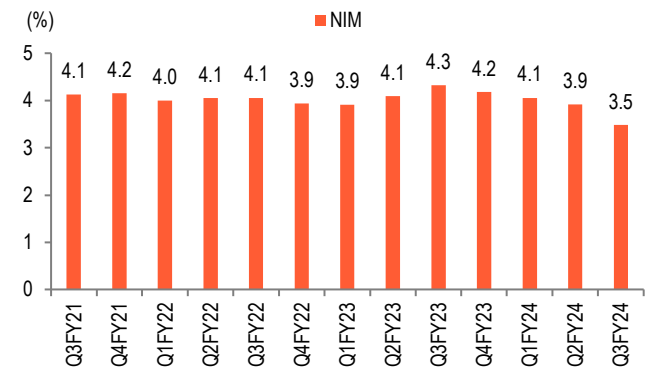
Source: Company, BOBCAPS Research

Fig 9 – High cost of funds led to decline in NIM (calc.)



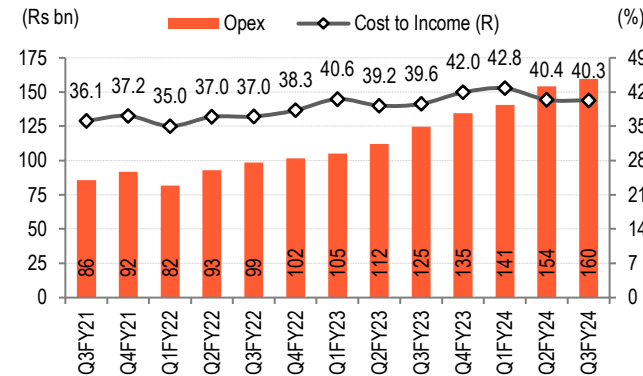
Source: Company, BOBCAPS Research

Fig 10 – Margin pressure weighed on performance



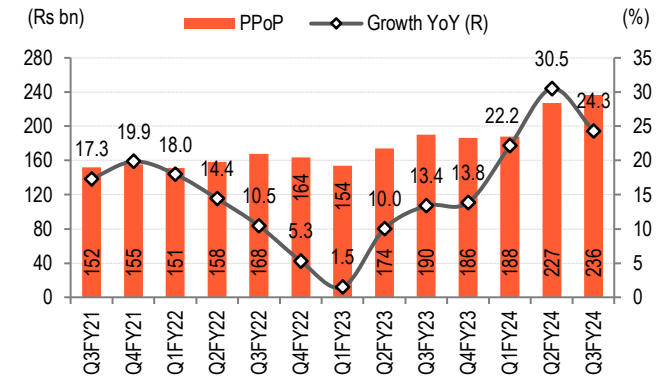
Source: Company, BOBCAPS Research

Fig 11 – C/I remained stable during quarter



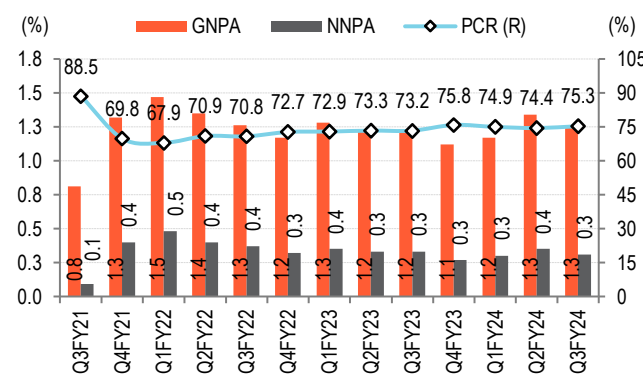
Source: Company, BOBCAPS Research

Fig 12 – PPOP growth slowed on subdued core income



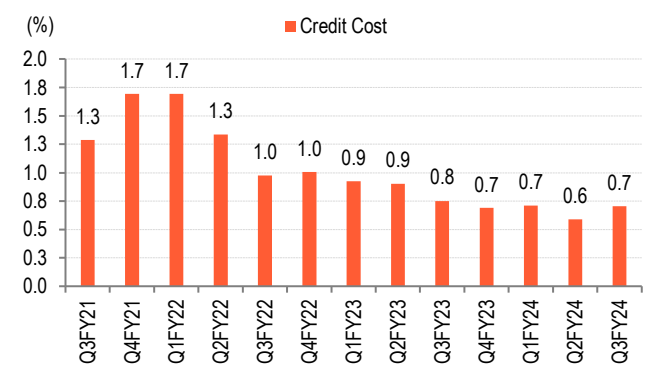
Source: Company, BOBCAPS Research

Fig 13 – Asset quality stable QoQ



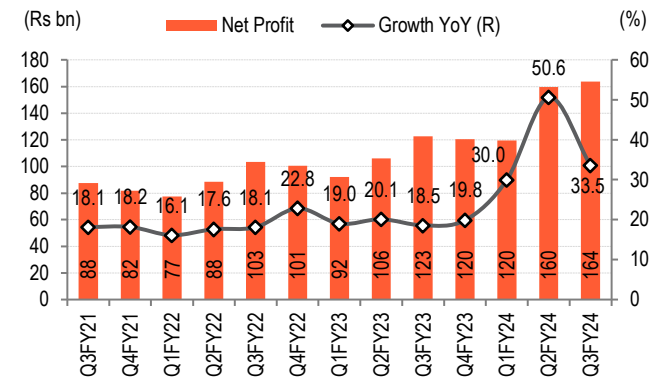
Source: Company, BOBCAPS Research

Fig 14 – Credit cost increased due to contingent provision of Rs 12.2bn



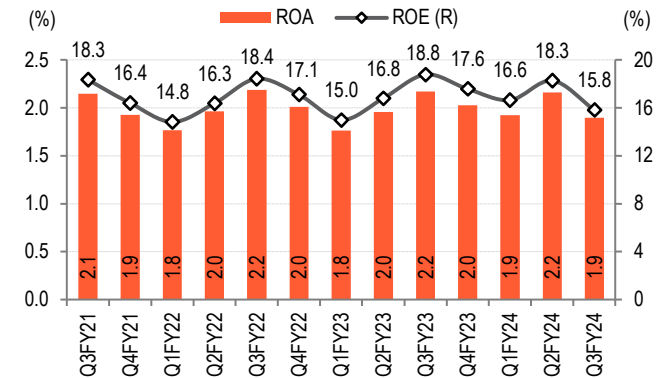
Source: Company, BOBCAPS Research

Fig 15 – Tax writeback limited moderation in PAT growth



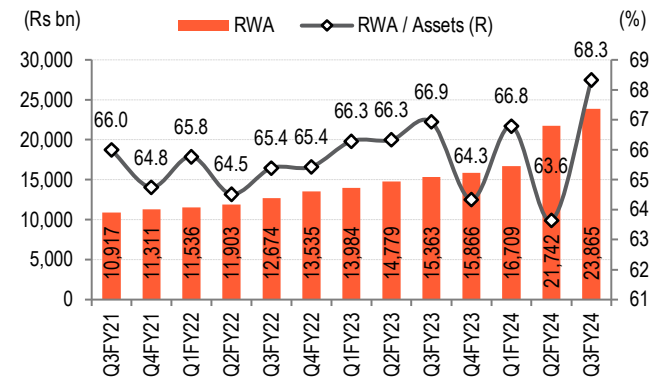
Source: Company, BOBCAPS Research

Fig 16 – Return ratios tapered in line with profitability



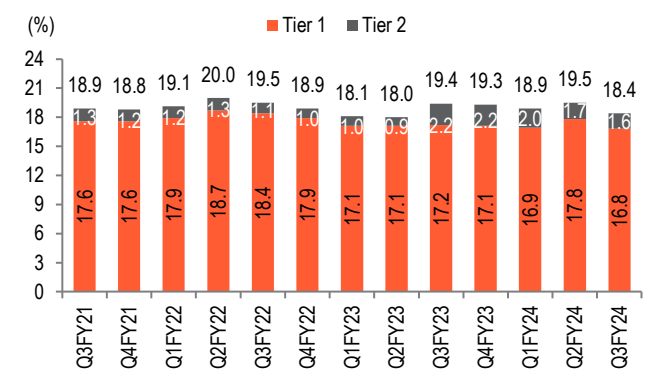
Source: Company, BOBCAPS Research

Fig 17 – RWA/Assets jumped due to change in regulation



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

Fig 18 – Well capitalised with CAR of 18.4%



Source: Company, BOBCAPS Research

Earnings call takeaways

Loan book

- HDFCB's loans grew 62.3% YoY (+4.9% QoQ; merged basis) in Q3FY24.
- Retail advances grew 3.3% sequentially (3.1% in Q2), CRB advances were up 6.7% (9.7% in Q2) and the wholesale segment excluding the non-individual loans of HDFC remained subdued at 1.9% (5.8% in Q2).
- As indicated by management, HDFC's non-individual loans continue to run down and stood at Rs 989bn in Q3 vs. Rs 1.03tn in Q2.
- Management is planning to increase the retail book, more specifically the ex-mortgage unsecured book, to support margins. The bank believes it is well positioned to garner a better risk margin despite the increase in risk weights towards consumer loans.
- The CD ratio reached an all-time high of 110% in Q3 mainly due to a change in liability mix post-merger. Excluding HDFC's borrowings, the CD ratio has reached 89%, which is 300-400bps higher than the historical average.

Deposits

- Deposits increased by 1.9% QoQ wherein CASA deposits grew by 2.6% and term deposits by 1.5%. The bank has taken a conscious decision to focus on low-cost CASA rather than high-cost term deposits. Retail share in deposits stood at 84%, supporting an 25bps sequential rise in CASA ratio to 37.9%.
- The bank continues to mobilise retail current accounts to aid the deposit mix.
- A total of 2.2mn new liability customers were added during Q2, totalling 93mn.
- LCR during the quarter stood at 110%, below the average range of 115-120% over the last 3-4 quarters, as the bank optimised its asset mix by utilising additional liquidity from low-yielding assets. Management expects to improve LCR from the current level.

Asset quality

- Slippages for the quarter were at Rs 70bn or 26bps of advances vs. Rs 78bn or 30bps in Q2.
- Recoveries and upgrades totalled Rs 45bn while write-offs stood at Rs 31bn. There was no sale to ARC during the quarter.
- PCR stood at 75% with contingent and floating provisions at Rs 153.5bn and general provisions at Rs 105bn. Total provisioning stood at 159% of GNPA or 105bps of advances.
- Credit cost (reported) was flat QoQ at 49bps excluding the contingent provision of Rs 12.2bn towards AIFs.
- RWA/Assets ratio jumped to 68.3% from 63.6% in Q2 due to regulatory changes.

Opex

- HDFCB added 146 branches, 92 ATMs and 10,167 employees during the quarter.
- The bank plans to add 500-550 branches in Q4FY24 and 900-1,000 branches in FY24 (vs. 1,500 earlier).

Net interest margin

- Reported core NIM was at 3.4% on total assets and 3.6% on interest-earning assets, the latter being flat on a sequential basis.
- The bank plans to change its borrowing mix and focus on CASA to drive margin improvement. On the asset side, it will continue to focus on retail share improvement to garner high yields and support margins.
- Deposit repricing is not yet complete, but the pace is guided to slow.

Subsidiary performance

HDB Financials

- HDB Financials opened 16 branches in Q3FY24, taking its network to 1,618 branches spread across 1,125 cities.
- The subsidiary's loan book stood at Rs 840bn, rising 29% YoY (+8% QoQ), on a customer base of 14.6mn (1mn added during the quarter).
- NIM came in at 7.7%, net profit at Rs 6.4bn (+27% YoY) and EPS at Rs 8.
- Stage-3 loans stood at 2.25% of advances vs. 2.4% in Q2FY24 and 3.73% in Q3FY23. PCR on the stage-3 book was 68%.
- The company reported ROA of 3.1% (flat QoQ) and ROE of 19.9% (+20bps QoQ).

HDFC Life

- HDFC Life sold 288,000 individual policies during Q3 and had an individual weighted received premium market share of 14% vs. 15.7% for H1FY24.
- Premium income totalled Rs 155bn, rising 7% YoY, and AUM grew 20% YoY to Rs 2.8tn.
- New business premium was at Rs 71bn with the new business margin stable at 26.8%.
- PAT grew 16% YoY to Rs 3.7bn and the solvency ratio stood at 190%.
- Embedded value at Rs 452bn improved 20% YoY.

HDFC AMC

- Quarterly average AUM totalled Rs 5.5tn, constituting 11.2% market share. About 61% of quarterly average AUM is equity oriented.
- The AMC has 8.7mn unique investors.
- Total income stood at Rs 8.1bn in Q3, net profit at Rs 4.9bn, and EPS at Rs 22.9.

HDFC ERGO

- Gross direct premium market share was 6.7% overall and 10.2% among private sector players.
- Retail mix in the business is 69%.
- The company has a distribution network of 237 branches and 472 digital offices.
- A total of 3.4mn policies were issued during Q3, up by 39% YoY.
- Gross written premium at Rs 47.2bn grew 19% YoY and net profit grew 6% to Rs 1.3bn. The solvency ratio stood at 187%.

HDFC Securities

- HDFC Securities reported revenue of Rs 7bn and PAT of Rs 2.3bn for the quarter.
- The company has a network of 193 branches spread across 143 cities and towns.
- The client base totalled 5mn as of Q3FY24 with ~94% of active clients using the digital platform.

Valuation methodology

Considering the competitive intensity and challenges towards funding assets, we cut our FY24/FY25 loan estimates for HDFCB by 1.3%/0.5% while increasing our deposit estimates by 2% for FY25. We also introduce forecasts for FY26.

Though a rising share of term deposits would put pressure on NIM, we expect a change in borrowing mix through infrastructure bonds and affordable housing bonds (compared to plain vanilla borrowings) to somewhat alleviate the cost pressure on the liability side, while a further shift in loan mix towards the retail segment would aid margin recovery. We now model for NIM (calc.) of ~3.9% for FY25 vs. our earlier estimate of 4% and expect the bank to reach its guidance of 4% by FY26.

Non-core income is projected to stay healthy with strong traction in fee income as the bank focuses on business granularity. We do not anticipate major asset quality concerns over our forecast period and expect management's prudent buffer provisioning to rein credit cost in a range of 66-73bps over FY24-FY26. We adjust our FY24/FY25 PAT estimates by -6.4%/+1% to bake in the Q3FY24 results and forecast a 27% CAGR for the bank over FY23-FY26.

Given the bank's healthy growth outlook and recent stock price correction, we retain our BUY rating, although margin movement would be a key aspect to watch. Besides estimate revision, we roll valuations forward to Mar'26E and reset our target P/ABV multiple from 2.9x to 2.4x based on the Gordon Growth Model. Adding in Rs 223/sh as the value of subsidiaries, we arrive at a new SOTP-based TP of Rs 1,896 (vs. Rs 1,929) for the stock.

Fig 19 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loan	25,289,257	29,613,720	25,609,374	29,758,093	(1.3)	(0.5)
Deposits	23,580,101	28,673,403	23,580,101	28,107,480	0.0	2.0
Assets	35,890,046	41,209,814	37,322,443	41,683,389	(3.8)	(1.1)
NII	1,074,938	1,420,161	1,171,471	1,500,426	(8.2)	(5.3)
PPOP	882,231	1,201,556	980,965	1,266,146	(10.1)	(5.1)
Provision	136,925	189,157	184,608	263,349	(25.8)	(28.2)
PAT	557,489	757,275	595,675	750,092	(6.4)	1.0

Source: BOBCAPS Research

Fig 20 – Key operational assumptions

(%)	FY23	FY24E	FY25E	FY26E
Advances growth	16.9	58.0	17.1	17.5
NII growth	20.6	23.8	32.1	18.9
PPoP growth	9.9	25.3	36.2	20.1
PAT growth	19.3	26.4	35.8	19.4
NIM	4.1	3.8	3.9	4.0
GNPA	1.1	1.2	1.2	1.3
CAR	19.3	18.0	17.4	16.6

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 (%)	12.5
Blended ROE (%)	16.2
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	8.1
Long term dividend payout ratio (%)	50.0
Justified P/BV Multiple (x)	2.4

Source: Company, BOBCAPS Research

Fig 22 – Valuation summary

Business	Valuation	Holdings	Rs/Share
HDFC Bank	2.4x FY26E ABV	100	1,674
HDFC Life	Market cap	50.37	79
HDFC AMC	Market cap	52.6	45
HDFC Ergo	33x FY26E EPS	50.5	24
HDB Financials	2.1x FY26E ABV	94.9	47
HDFC Securities	20x FY26E EPS	95.6	29
Total	-	-	1,896

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	40.5	1,082	1,155	BUY
Bandhan Bank	BANDHAN IN	4.5	228	276	BUY
Federal Bank	FB IN	3.8	146	180	BUY
HDFC Bank	HDFCB IN	141.0	1,538	1,896	BUY
ICICI Bank	ICICIBC IN	83.4	982	1,090	BUY
Indusind Bank	IIB IN	15.5	1,644	1,755	BUY
Kotak Mahindra Bank	KMB IN	43.0	1,780	2,007	BUY
RBL Bank	RBK IN	2.1	283	258	HOLD
State Bank of India	SBIN IN	68.0	626	747	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Jan 2024

Glossary

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	720,096	868,422	1,074,938	1,420,161	1,688,807
NilI growth (%)	11.0	20.6	23.8	32.1	18.9
Non-interest income	295,099	312,148	435,966	543,554	634,378
Total income	1,015,195	1,180,570	1,510,904	1,963,715	2,323,185
Operating expenses	374,422	476,521	628,673	762,160	879,982
PPOP	640,773	704,050	882,231	1,201,556	1,443,204
PPOP growth (%)	11.7	9.9	25.3	36.2	20.1
Provisions	150,618	119,197	136,925	189,157	234,573
PBT	490,155	584,853	745,307	1,012,399	1,208,631
Tax	120,541	143,766	187,817	255,125	304,575
Reported net profit	369,614	441,087	557,489	757,275	904,056
Adjustments	0	0	0	0	0
Adjusted net profit	369,614	441,087	557,489	757,275	904,056

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	5,546	5,580	7,593	7,593	7,593
Reserves & surplus	2,395,384	2,796,410	4,199,634	4,782,735	5,478,858
Net worth	2,400,929	2,801,990	4,207,226	4,790,328	5,486,451
Deposits	15,592,174	18,833,946	23,580,101	28,673,403	34,780,838
Borrowings	1,848,172	2,067,656	7,464,237	7,240,310	7,023,100
Other liab. & provisions	844,075	957,222	638,482	505,774	1,482,520
Total liab. & equities	20,685,350	24,660,815	35,890,046	41,209,814	48,772,908
Cash & bank balance	1,523,269	1,937,651	1,725,925	2,037,887	2,474,715
Investments	4,555,357	5,170,014	6,964,526	7,700,176	9,326,118
Advances	13,688,209	16,005,859	25,289,257	29,613,720	34,796,121
Fixed & Other assets	918,514	1,547,291	1,910,338	1,858,032	2,175,954
Total assets	20,685,350	24,660,815	35,890,046	41,209,814	48,772,908
Deposit growth (%)	16.8	20.8	25.2	21.6	21.3
Advances growth (%)	20.8	16.9	58.0	17.1	17.5

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	66.8	79.3	84.6	99.7	119.1
Dividend per share	6.5	19.0	17.6	22.9	27.4
Book value per share	432.9	502.2	554.1	630.9	722.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	23.0	19.4	18.2	15.4	12.9
P/BV	3.6	3.1	2.8	2.4	2.1
Dividend yield (%)	0.4	1.2	1.1	1.5	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	3.8	3.8	3.6	3.7	3.8
Non-interest income	1.5	1.4	1.4	1.4	1.4
Operating expenses	2.0	2.1	2.1	2.0	2.0
Pre-provisioning profit	3.4	3.1	2.9	3.1	3.2
Provisions	0.8	0.5	0.5	0.5	0.5
PBT	2.6	2.6	2.5	2.6	2.7
Tax	0.6	0.6	0.6	0.7	0.7
ROA	1.9	1.9	1.8	2.0	2.0
Leverage (x)	8.6	8.7	8.6	8.6	8.8
ROE	16.7	17.0	15.9	16.8	17.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Net interest income	11.0	20.6	23.8	32.1	18.9
Pre-provisioning profit	11.7	9.9	25.3	36.2	20.1
EPS	18.1	18.6	6.7	17.8	19.4
Profitability & Return ratios (%)					
Net interest margin	3.9	4.1	3.8	3.9	4.0
Fees / Avg. assets	1.0	1.1	0.9	1.0	1.0
Cost-Income	36.9	40.4	41.6	38.8	37.9
ROE	16.7	17.0	15.9	16.8	17.6
ROA	1.9	1.9	1.8	2.0	2.0
Asset quality (%)					
GNPA	1.2	1.1	1.2	1.2	1.3
NNPA	0.3	0.3	0.3	0.3	0.3
Slippage ratio	2.4	1.8	1.8	1.8	1.7
Credit cost	1.2	0.8	0.7	0.7	0.7
Provision coverage	72.7	75.8	75.0	76.0	76.0
Ratios (%)					
Credit-Deposit	87.8	85.0	107.2	103.3	100.0
Investment-Deposit	29.2	27.5	29.5	26.9	26.8
CAR	18.9	19.3	18.0	17.4	16.6
Tier-1	17.9	17.1	16.3	16.0	15.4

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

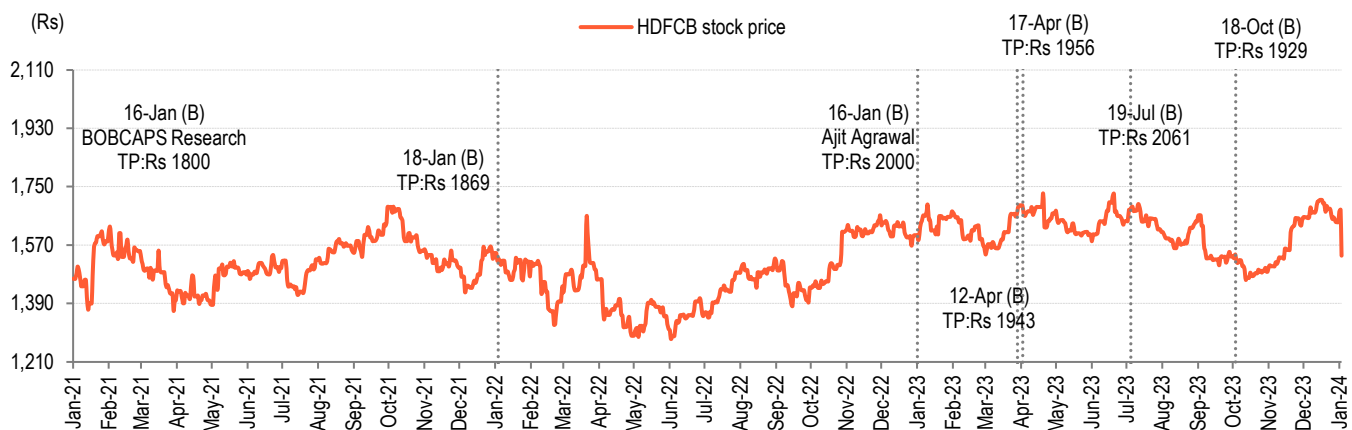
HOLD – Expected return from -6% to +15%

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

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