

RESEARCH
HDFC BANK | TARGET: Rs 1,872 | +24% | BUY

Realigning business dynamics in 4Q to improve profitability

SUMMARY
HDFC BANK

- Recovery in deposit mobilisation led to lower C/D ratio while better yield on asset helped NIM (R) stabilise; asset quality remains stable
- One-offs like the gain from Credila and tax writeback helped towards a floating provision of Rs 109bn and Rs 15bn for staff ex-gratia payment
- Structural changes may lead to growth moderation; focus remains on profitability. Maintain BUY with TP lower at Rs 1,872 (from Rs 1,896)

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Daily macro indicators

Indicator	18-Apr	19-Apr	Chg (%)
US 10Y yield (%)	4.63	4.62	(1bps)
India 10Y yield (%)	7.19	7.23	4bps
USD/INR	83.54	83.47	0.1
Brent Crude (US\$/bbl)	87.3	87.1	(0.2)
Dow	37,775	37,986	0.6
Hang Seng	16,386	16,224	(1.0)
Sensex	72,489	73,088	0.8
India FII (US\$ mn)	16-Apr	18-Apr	Chg (\$ mn)
FII-D	(402.8)	(309.2)	93.6
FII-E	(391.0)	(498.5)	(107.5)

Source: Bank of Baroda Economics Research



BUY
 TP: Rs 1,872 | ▲ 24%

HDFC BANK

| Banking

| 22 April 2024

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4Q deposit growth outpaced credit, leading to some cool-off in C/D ratio:

HDFCB's deposits outpaced credit growth with sequential rise of 7.5% vs 1.6% in advance leading to a 607bps decline in C/D ratio to 104%. With liquidity healthy, LCR stood at 115% vs 110% in Q3. Healthy deposit was mainly driven by CASA (8.3% QoQ vs 2.6% in Q3) leading to 30bps rise in CASA ratio to 38%. However, growth in loan book was driven by CRB and retail division (4.2%/3.5% QoQ) which helped the bank to improve margin. Wholesale book remained muted (-2.2% QoQ) as a strategic decision to avoid rate competition and focus on profitability.

NIM improved on yield rise, while one-off gains supported PPOP: NII grew 24%

YoY (2% QoQ) while reported NIM improved 4bps QoQ to 3.4% supported by rise on yield, and management believes with the rise in CoF it would prioritise margin in the tradeoff between growth and margin. It expects realignment of the asset and liability mix (replacement of high-cost borrowing with deposits as maturity kicks in, along with focus on high yielding retail mix) can improve margin, but we believe it would be a gradual process and key watchable in the near future.

One-offs helped bank maintain profitability: HDFCB utilised its one-off gain from

the stake sale in Credila (Rs 73bn) and tax writeback (Rs 44bn) to build a floating provision of Rs 109bn along with a one-time provision towards staff ex-gratia of Rs 15bn (nullifying overall one-off gain). The C/I ratio improved 226bps to 38% in Q4, but knocking off all one-offs C/I ratio stood at 41.3% vs 40.3% in Q3. Asset quality stayed almost stable with GNPA/NNPA at 1.24%/0.33% with PCR of 74% vs. GNPA/NNPA of 1.26%/0.31% and PCR of 75% in Q3. Accumulated provision of 2.4% of total loan (196% of GNPA) will likely cushion against any future asset quality shock.

Maintain BUY: We trim our FY25/FY26 PAT estimates by 1.5%/3% to bake in change in business dynamics and future outlook. Bank's focus is on profitability with stable asset quality, and we believe overall performance would improve over FY25-FY26 and we revise the SOTP-based TP to Rs 1,872 (vs. Rs 1,896), where we value the core business at 2.3x FY26E P/ABV (2.4x earlier) based on the Gordon Growth Model and include Rs 214/sh for subsidiaries.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,512
Market cap	US\$ 138.7bn
Free float	100%
3M ADV	US\$ 422.3mn
52wk high/low	Rs 1,758/Rs 1,364
Promoter/FPI/DII	0%/48%/33%

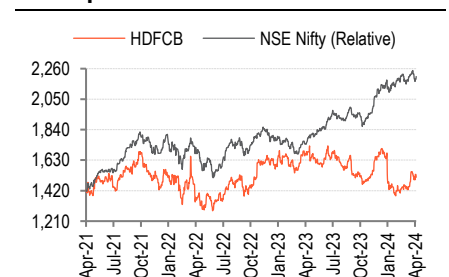
Source: NSE | Price as of 22 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
NII (Rs mn)	1,085,325	1,401,509	1,649,566
NII growth (%)	25.0	29.1	17.7
Adj. net profit (Rs mn)	608,123	745,998	878,096
EPS (Rs)	92.3	98.2	115.6
Consensus EPS (Rs)	92.0	92.0	107.0
P/E (x)	16.4	15.4	13.1
P/BV (x)	2.6	2.3	2.0
ROA (%)	2.0	1.9	1.9
ROE (%)	16.9	15.9	16.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



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BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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