

BUY

TP: Rs 1,872 | ▲ 16%

HDFC BANK

| Banking

| 21 July 2024

Continued focus on business realignment impedes growth

- NII growth remained healthy, while fall in other income was offset by lower opex, provision, and adj PAT. NIM increased 3bps QoQ to 3.7%
- Focus on profit over growth led to business slowdown, while opex is likely to remain elevated with stable asset quality
- Structural changes may lead to growth moderation; focus remains on profitability. Maintain BUY with unchanged TP of Rs 1,872

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1Q business growth remained subdued while C/D ratio continued to decline:

HDFCB's overall business remained muted with sequential flat deposits and 1% QoQ decline in Credit leading to 87bps decline in C/D ratio (focus on faster decline in C/D ratio) to 103.5%. HDFCB's focus on liquidity led to an 8% QoQ rise in LCR to 123%. Flat deposits in Q1 was mainly due to outflow of CA (-14% QoQ), while SA mobilisation remained muted with a 0.4% decline QoQ leading to a 188bps fall in CASA ratio (36.3%). However, growth in loan book was driven by the retail segment (1.5% QoQ), while CRB/wholesale remained subdued at 1.0%/-5.3% QoQ.

NIM improved on yield rise, while it expects margin to improve with change in business mix:

NII grew 26% YoY (3% QoQ), while reported NIM improved 3bps QoQ to 3.7% supported by rise in yield. Management believes the replacement of high-cost borrowings with deposits as maturity kicks in will aid margin improvement. Further, HDFCB believes increasing market penetration with new customers along with cross selling of products may improve volume leverage and support overall business growth.

Lower opex and provision helped HDFCB maintain profitability:

The absence of one-offs like the stake sale in Credila and moderate treasury gain led to muted other income (-41% QoQ), while lower opex and provision (one-offs like staff ex-gratia of Rs 15bn and floating provision of Rs 109 bn in Q4FY24) supported PAT growth of 35% YoY (-2% QoQ). Bank's GNPA/NNPA increased 9bps/6bps QoQ to 1.3%/0.4% on the back of seasonality (increased stress from agri) with decline in PCR of 283bps QoQ to 71.2%. Credit cost stood at 42bps and we expect it to further normalise to 60-70bps.

Maintain BUY: We trim our FY25/FY26 PAT estimates by 2%/6% to bake in business moderation with tight liquidity conditions and future outlook. The bank's focus is on profitability with stable asset quality, and we believe overall performance would improve over FY25-FY26 and we maintain our SOTP-based TP of Rs 1,872, where we roll-over the core business at 2.2x FY26E (Jun'26) P/ABV (2.3x earlier) based on the Gordon Growth Model and include Rs 223/sh for subsidiaries.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	HDFCB IN/Rs 1,607
Market cap	US\$ 147.4bn
Free float	100%
3M ADV	US\$ 399.7mn
52wk high/low	Rs 1,794/Rs 1,364
Promoter/FPI/DII	0%/47%/35%

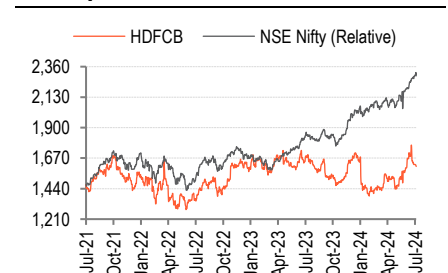
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NII (Rs mn)	1,085,325	1,319,343	1,582,945
NII growth (%)	25.0	21.6	20.0
Adj. net profit (Rs mn)	608,123	728,992	828,552
EPS (Rs)	92.3	95.9	108.9
Consensus EPS (Rs)	92.3	92.0	107.0
P/E (x)	17.4	16.8	14.8
P/BV (x)	2.8	2.5	2.2
ROA (%)	2.0	1.9	1.9
ROE (%)	16.9	15.6	15.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly snapshot: Income statement

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Income Statement							
Interest Income	380,080	542,945	567,726	581,450	587,149	54.5	1.0
Income on investments	89,112	116,395	122,158	115,978	125,438	40.8	8.2
Int. on bal. with RBI & inter-bank funds & Others	16,676	17,644	15,943	17,300	17,744	6.4	2.6
Interest income	485,868	676,984	705,826	714,728	730,331	50.3	2.2
Interest expense	249,877	403,132	421,113	423,959	431,960	72.9	1.9
Net interest income	235,991	273,852	284,713	290,768	298,371	26.4	2.6
Growth YoY (%)	21.1	30.3	23.9	24.5	26.4	530bps	192bps
Fee Income	62,900	69,360	69,400	79,900	70,500	12.1	(11.8)
Trading gains/(losses)	5,520	10,410	14,700	75,900	2,200	(60.1)	(97.1)
Forex Income	12,210	12,100	11,400	11,400	14,000	14.7	22.8
Others	11,669	15,208	15,870	14,463	19,981	71.2	38.2
Non-interest income	92,299	107,078	111,370	181,663	106,681	15.6	(41.3)
Growth YoY (%)	44.5	41.0	31.0	108.1	15.6	(2,890bps)	(9,248bps)
Total Income	328,289	380,931	396,084	472,431	405,053	23.4	(14.3)
Growth YoY (%)	26.9	33.1	25.8	47.3	23.4	(352bps)	(2,387bps)
Staff expenses	47,821	51,702	53,518	69,362	58,489	22.3	(15.7)
Other operating expenses	92,748	102,290	106,093	110,326	107,717	16.1	(2.4)
Operating expenses	140,569	153,992	159,611	179,688	166,206	18.2	(7.5)
Pre-Provisioning Profit (PPoP)	187,720	226,939	236,473	292,742	238,846	27.2	(18.4)
Growth YoY (%)	22.2	30.5	24.3	57.2	27.2	508bps	(2,998bps)
Provisions	28,600	29,038	42,166	135,116	26,021	(9.0)	(80.7)
Growth YoY (%)	(10.3)	(10.4)	50.2	403.2	(9.0)	126bps	(41,218bps)
PBT	159,120	197,901	194,307	157,626	212,826	33.8	35.0
Tax	39,602	38,139	30,581	(7,493)	51,078	29.0	(781.7)
PAT	119,518	159,761	163,725	165,119	161,748	35.3	(2.0)
Growth YoY (%)	30.0	50.6	33.5	37.1	35.3	537bps	(172bps)
Per Share							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	21	21	22	22	21	(0.6)	(2.1)
Book Value (Rs)	526	535	557	581	604	14.7	4.0

Source: Company, BOBCAPS Research

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

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Deposits	19,130,958	21,728,578	22,139,770	23,797,863	23,790,845	24.4	0.0
Growth YoY (%)	19.2	29.8	27.7	26.4	24.4	514bps	(200bps)
Advances	16,156,720	23,312,329	24,460,757	24,848,615	24,635,208	52.5	(0.9)
Growth YoY (%)	15.8	57.5	62.3	55.2	52.5	3,666bps	(277bps)
Investment	5,657,776	7,234,359	6,749,314	7,024,150	7,088,167	25.3	0.9
Equity	2,943,738	4,057,880	4,230,591	4,410,055	4,594,431	56.1	4.2
Assets	25,016,930	34,163,102	34,926,389	36,176,231	35,672,495	42.6	(1.4)
Growth YoY (%)	18.6	53.3	52.2	46.7	42.6	2402bps	(410bps)

(Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Yield (%)							
Yield on Funds	8.35	9.70	8.63	8.53	8.64	29bps	11bps
Cost of Funds	4.75	6.43	5.77	5.66	5.74	99bps	8bps
Spread	3.61	3.26	2.87	2.87	2.90	(71bps)	3bps
Net Interest Margin (calc.)	4.06	3.92	3.48	3.47	3.53	(53bps)	6bps
Ratios (%)							
Other Income / Net Income	28.1	28.1	28.1	38.5	26.3	(178bps)	(1212bps)
Cost to Income ratio	42.8	40.4	40.3	38.0	41.0	(179bps)	300bps
CASA ratio	42.5	37.6	37.9	38.2	36.3	(619bps)	(188bps)
C/D ratio	84.5	107.3	110.5	104.4	103.5	1910bps	(87bps)
Investment to Assets	22.6	21.2	19.3	19.4	19.9	(275bps)	45bps
Assets Quality							
GNPA	190,641	315,779	310,117	311,733	330,257	73.2	5.94
NNPA	47,769	80,728	76,641	80,917	95,084	99.1	17.5
Provision	142,873	235,051	233,476	230,816	235,173	64.6	1.9
GNPA (%)	1.17	1.34	1.26	1.24	1.33	16bps	9bps
NNPA (%)	0.30	0.35	0.31	0.33	0.39	9bps	6bps
PCR (%)	74.9	74.4	75.3	74.0	71.2	(373bps)	(283bps)
Others (Nos.)							
Branches	7,860	7,945	8,091	8,738	8,851	991	113
ATMs	20,352	20,596	20,688	20,938	21,163	811	225
Employees	181,725	197,899	208,066	213,527	213,069	31,344	(458)

Source: Company, BOBCAPS Research

Fig 3 – Segmental loan book distribution

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	Nix (%)
Retail Loans												
Home Loans	882,490	930,500	975,930	1,020,670	6,927,670	7,170,700	7,433,000	7,744,000	7,880,000	13.7	1.8	30.1
Loan Against Property	651,160	693,130	724,360	767,730	-	-	-	-	-	-	-	-
Auto Loans	1,040,030	1,087,880	1,124,420	1,174,290	1,217,320	1,255,160	1,280,000	1,311,000	1,330,000	9.3	1.4	5.1
Two Wheelers	91,950	95,970	97,590	99,330	103,670	109,570	113,000	118,000	120,000	15.8	1.7	0.5
Gold Loans	88,080	94,340	100,420	108,420	116,910	126,040	131,000	138,000	149,000	27.4	8.0	0.5
Personal Loans	1,479,280	1,548,200	1,646,410	1,716,760	1,767,340	1,786,910	1,815,000	1,846,000	1,859,000	5.2	0.7	7.2
Payment products	801,420	819,660	833,140	861,040	904,360	909,070	971,000	1,002,000	1,034,000	14.3	3.2	3.9
Other retail Loans	544,400	535,800	411,000	597,540	594,980	445,000	446,000	469,000	445,000	(25.2)	(5.1)	1.8
Total Retail Loans	5,578,810	5,805,480	5,913,270	6,345,780	11,632,250	11,802,450	12,189,000	12,628,000	12,817,000	10.2	1.5	49.0
Commercial & Rural Banking												
Emerging Corporates	1,527,810	1,645,580	1,706,230	1,831,510	1,877,830	2,059,630	2,212,000	2,168,000	2,159,000	15.0	(0.4)	8.4
Business Banking	1,991,680	2,180,140	2,320,490	2,534,520	2,590,130	2,850,150	3,068,000	3,217,000	3,299,000	27.4	2.5	12.5
Commercial Transportation	845,370	918,900	996,840	1,108,310	1,163,950	1,237,500	1,313,000	1,374,000	1,416,000	21.7	3.1	5.3
Agriculture	615,790	702,780	709,120	817,190	796,370	904,870	930,000	1,053,000	1,001,000	25.7	(4.9)	4.1
Total Commercial Rural Banking	4,980,650	5,447,400	5,885,680	6,291,530	6,428,280	7,244,150	7,730,000	8,056,000	8,129,000	26.5	0.9	31.3
Corporate & Other Wholesale	3,639,390	3,967,790	3,922,540	4,097,120	4,046,370	4,281,090	4,363,000	5,075,000	4,805,000	18.7	(5.3)	19.7
Total Gross Loan	14,198,850	15,220,670	15,721,490	16,734,430	22,106,900	23,327,690	24,282,000	25,759,000	25,751,000	16.5	0.0	100

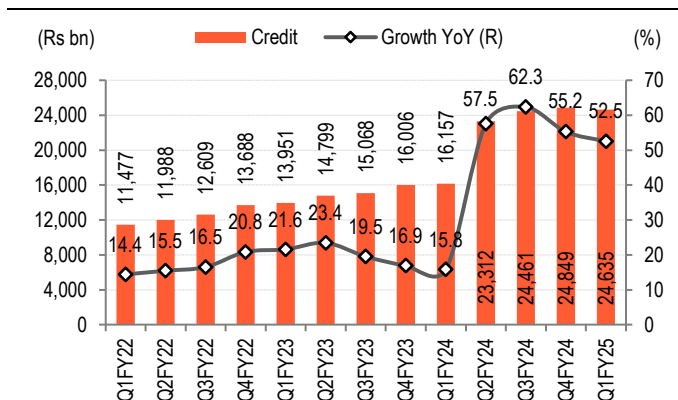
Source: Company, BOBCAPS Research

Fig 4 – Segmental loan book distribution in percentage terms

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY	QoQ
Retail Loans											
Home Loans	6.2	6.1	6.2	6.1	31.3	30.7	30.6	30.1	30.6	(74bps)	54bps
Loan Against Property	4.6	4.6	4.6	4.6	0.0	0.0	0.0	0.0	0.0	0bps	0bps
Auto Loans	7.3	7.1	7.2	7.0	5.5	5.4	5.3	5.1	5.2	(34bps)	8bps
Two Wheelers	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0bps	1bps
Gold Loans	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	5bps	4bps
Personal Loans	10.4	10.2	10.5	10.3	8.0	7.7	7.5	7.2	7.2	(78bps)	5bps
Payment products	5.6	5.4	5.3	5.1	4.1	3.9	4.0	3.9	4.0	(8bps)	13bps
Other retail Loans	3.8	3.5	2.6	3.6	2.7	1.9	1.8	1.8	1.7	(96bps)	(9bps)
Total Retail Loans	39.3	38.1	37.6	37.9	52.6	50.6	50.2	49.0	49.8	(285bps)	75bps
Commercial & Rural Banking											
Emerging Corporates	10.8	10.8	10.9	10.9	8.5	8.8	9.1	8.4	8.4	(11bps)	(3bps)
Business Banking	14.0	14.3	14.8	15.1	11.7	12.2	12.6	12.5	12.8	109bps	32bps
Commercial Transportation	6.0	6.0	6.3	6.6	5.3	5.3	5.4	5.3	5.5	23bps	16bps
Agriculture	4.3	4.6	4.5	4.9	3.6	3.9	3.8	4.1	3.9	28bps	(20bps)
Total Commercial Rural Banking	35.1	35.8	37.4	37.6	29.1	31.1	31.8	31.3	31.6	249bps	29bps
Corporate & Other Wholesale	25.6	26.1	25.0	24.5	18.3	18.4	18.0	19.7	18.7	36bps	(104bps)
Total Gross Loan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

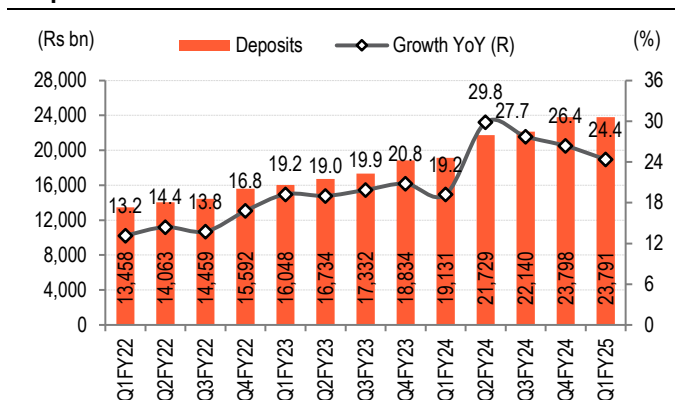
Source: Company, BOBCAPS Research

Fig 5 – Credit declined 1% QoQ while retail grew 1.5% QoQ



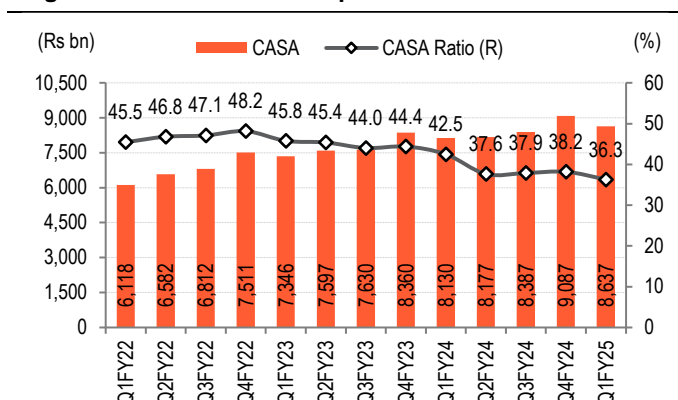
Source: Company, BOBCAPS Research

Fig 6 – Deposits remained flat QoQ due to outflow of CA deposits



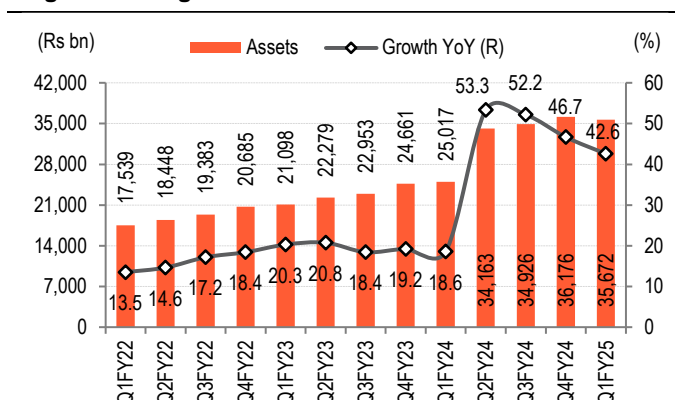
Source: Company, BOBCAPS Research

Fig 7 – CASA declined 188bps QoQ with subdued CA



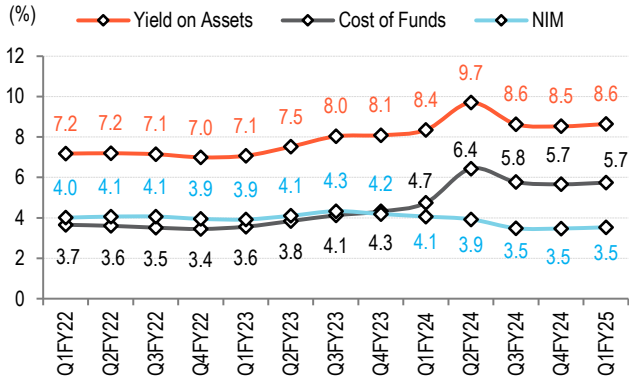
Source: Company, BOBCAPS Research

Fig 8 – Asset growth remained moderate



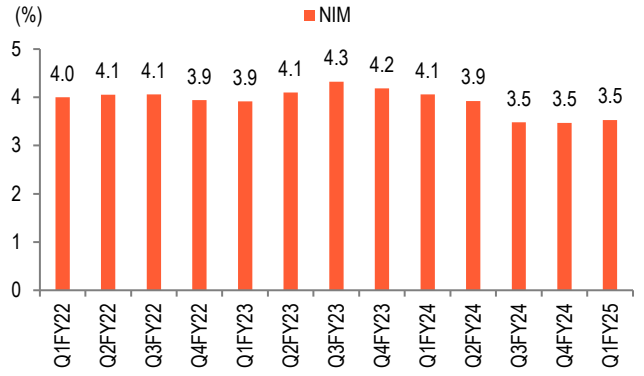
Source: Company, BOBCAPS Research

Fig 9 – Rise on yield supported margin



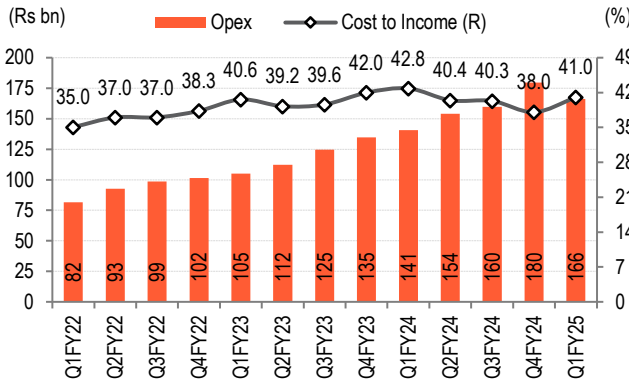
Source: Company, BOBCAPS Research

Fig 10 – Margin to remain stable at current level with upward bias



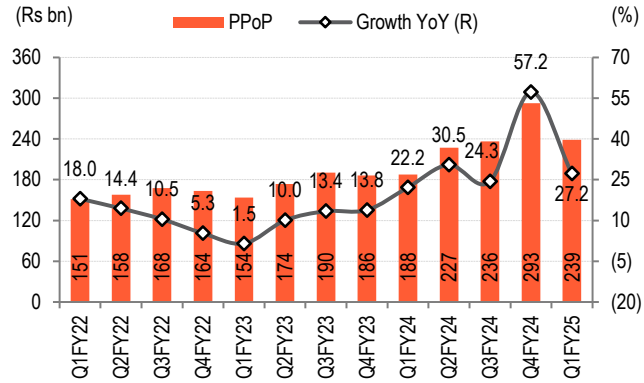
Source: Company, BOBCAPS Research

Fig 11 – C/I to remain in focus



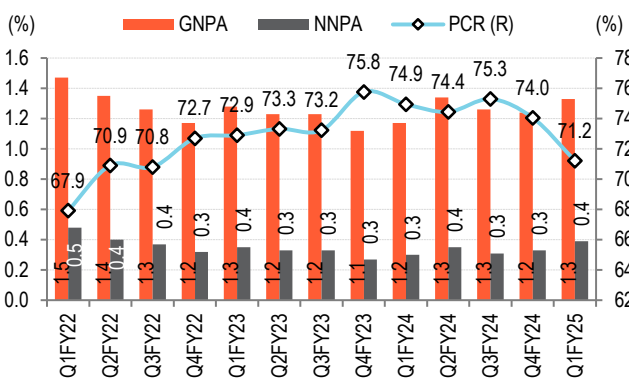
Source: Company, BOBCAPS Research

Fig 12 – PPOp declined in the absence of one-off gain



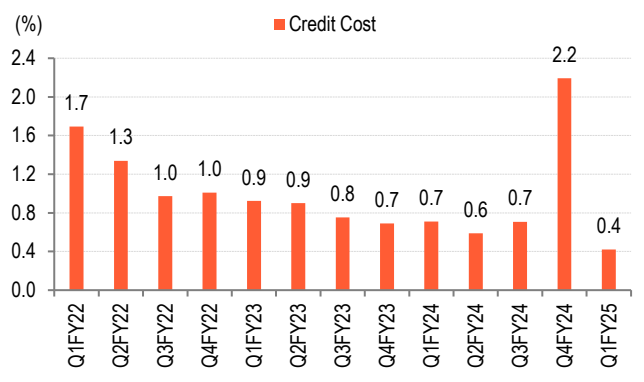
Source: Company, BOBCAPS Research

Fig 13 – Asset quality stable QoQ



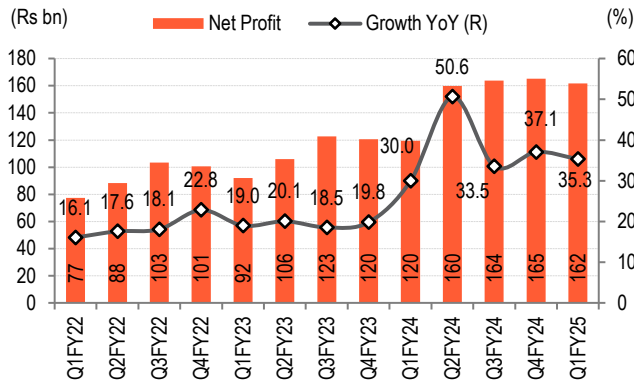
Source: Company, BOBCAPS Research

Fig 14 – Credit cost declined in the absence of floating provision



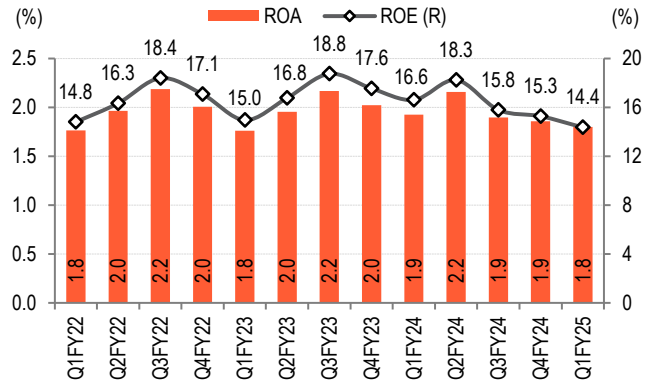
Source: Company, BOBCAPS Research

Fig 15 – PAT remained muted with lower other income



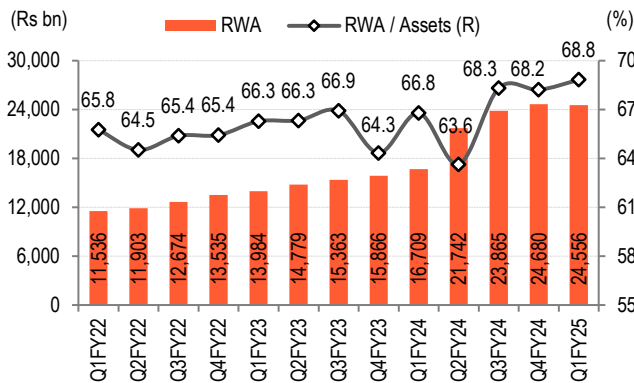
Source: Company, BOBCAPS Research

Fig 16 – Return ratios tapered in line with profitability



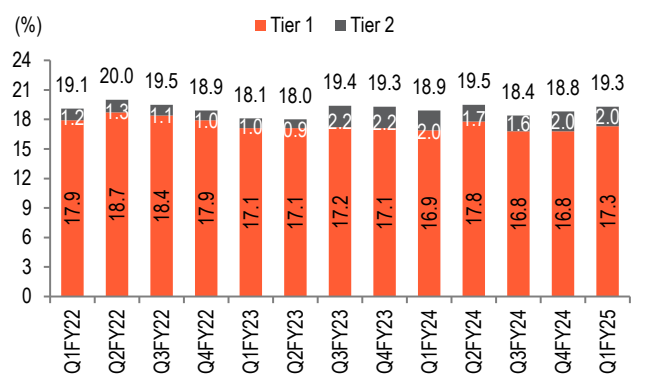
Source: Company, BOBCAPS Research

Fig 17 – RWA/Assets remained stable



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

Fig 18 – Well capitalised with CAR of 19.3%



Source: Company, BOBCAPS Research

Earnings call takeaways

Loan book

- HDFCB’s loans grew 52.5% YoY (-1.0% QoQ; merged basis) in Q1FY25, while it grew by 14.9% YoY ex-merger.
- Retail advances grew 1.5% sequentially, CRB advances were up 1% and the wholesale segment declined by 5.3% QoQ.
- The CD ratio continued to cool off by 87bps on a sequential basis to 103.5% after reaching an all-time high of 110% in Q3FY24 mainly due to the slowdown in credit growth. While the bank expected some sizable high-cost borrowings scheduled for repayment over FY25-FY26, they will be replaced by deposits and help improve overall margin.

Deposits

- During Q1FY25, deposits remained flat QoQ wherein CASA deposits declined 5% QoQ due to a 14% decline in CA deposits while TD rose 3% QoQ leading to a 188bps decline in CASA ratio. However, management is targeting to improve CASA mobilisation to support margin over FY25/FY26.

- LCR during the quarter showed some improvement and reached 123% vs. 115% in Q4FY24, and management expects further improvement over the coming quarters.

Asset quality

- Slippages for the quarter were at Rs 79bn or 32bps of advances vs. Rs 73bn or 26bps in Q4.
- Recoveries and upgrades totalled Rs 35bn while write-offs stood at Rs 26bn. There was no sale to ARC during the quarter.
- PCR stood at 71% vs. 74% in Q4FY24.
- Credit cost declined 177bps QoQ to 42bps on higher base (Q4 provision includes Rs 109bn of floating provision).
- RWA/Assets ratio remained flat at 68.8%.

Other income

- Other income stood at Rs 107bn (41% decline QoQ) on a higher base as the bank booked Rs 73bn (pretax) from its stake sale in Credila, which was one-off in nature.
- Total income grew 23.4% YoY and declined 14% QoQ, on lower other income.

Opex

- Opex during the quarter declined 7.5% QoQ, while C/I ratio increased 300bps on lower topline.
- HDFCB added 123 branches, 225 ATMs and let go 458 employees during the quarter.

Subsidiary performance

HDB Financials

- HDB Financials opened 45 branches in Q1FY25, taking its network to 1,727 branches spread across 1,154 cities.
- The subsidiary's loan book stood at Rs 956bn, rising 30% YoY (+6% QoQ), on a customer base of 16.5mn (~1mn added during the quarter).
- NIM came in at 7.4%, net profit at Rs 5.8bn (+3% YoY) and EPS at Rs 7.3.
- Stage 3 loans stood at 1.9% of advances vs. 2.5% in Q1FY25.
- The company reported ROA of 2.5% and ROE of 16.6%.

HDFC Life

- HDFC Life sold 253,000 individual policies during Q1 and had an individual weighted received premium market share of 17%.
- Premium income totalled Rs 125bn, rising 8% YoY, and AUM grew 22% YoY to Rs 3.1tn.
- New business premium was at Rs 65bn with the new business margin at 25%.
- PAT grew 15% YoY to Rs 4.8bn and the solvency ratio stood at 186%.

- Embedded value at Rs 496bn improved 19% YoY.

HDFC AMC

- Quarterly average AUM totaled Rs 6.7tn, constituting 11.4% market share. About 61% of quarterly average AUM is equity oriented.
- The AMC has 10.7mn unique investors.
- Total income stood at Rs 9.5bn in Q1, net profit at Rs 6.0bn, and EPS at Rs 28.3.

HDFC ERGO

- Gross direct premium market share was 5.2% overall and 7.8% among private sector players.
- Retail mix in the business is 63%.
- The company has a distribution network of 275 branches and 497 digital offices.
- A total of 2.3mn policies were issued during Q1.
- Gross written premium of Rs 38.7bn grew 10% YoY and net profit stood at Rs 1.3bn vs. Rs 2.0bn a year ago. The solvency ratio stood at 156%.

HDFC Securities

- HDFC Securities reported revenue of Rs 8.2bn and PAT of Rs 2.9bn for the quarter.
- The company has a network of 150 branches spread across 115 cities and towns.
- The client base totalled 5.7mn as of Q1FY25 with ~95% of active clients using the digital platform.

Valuation methodology

According to management guidance on realigning business dynamics, considering the competitive intensity on both the asset and liability sides and challenges towards funding assets, we cut our FY25/FY26 deposit estimates for HDFCB by 4%/5.6% while keeping our loan growth broadly same (-0.3%/-1% for FY25/FY26). With this revision we estimate a credit CAGR of 15.1% over FY24-FY26 and deposit CAGR of 19% over the same period, likely resulting in C/D ratios of 102%/98% for FY25/FY26 vs. its historical average of 85-87%.

Management strategically opted to avoid competitive intensity and prioritise profitability over growth, which are likely to aid margin over upcoming quarters. It is also keen to raise rates on the asset side to improve overall margin. It expects a change in borrowing mix through repayment of high-cost borrowings along with opting for other sources of funding like infrastructure bonds and affordable housing bonds (compared to plain vanilla borrowings) to somewhat alleviate the cost pressure on the liability side. We now model for NIM (calc.) of ~3.7%/3.9% for FY25E/FY26E vs. our earlier estimates of ~3.8%/3.9%.

We do not anticipate major asset quality concerns over our forecast period and expect management's prudent buffer provisioning to rein in credit costs of 70-80bps over FY25-FY26. We lower our FY24/FY25 PAT estimates by 2.3%/5.6% to bake in the Q1FY25 results and forecast a 17% CAGR for the bank over FY24-FY26.

The bank's strategic decision to realign asset liability mix to improve margin, focus on overall profitability for growth and its stable asset quality will likely augur well for HDFCB in upcoming periods. We trim our FY25/FY26 PAT estimates by 2%/6% to bake in business moderation with tight liquidity condition and future outlook. Although factoring in current business dynamics, we retain our BUY rating as the bank's focus is on profitability with stable asset quality. We believe overall performance would improve over FY25-FY26 although margin movement would be a key aspect to watch. With estimate revisions, we reset our target P/ABV from 2.3x to 2.2x FY26E (Jun'26) based on the Gordon Growth Model. Adding in Rs 223/sh as the value of subsidiaries, we maintain our SOTP-based TP of Rs 1,872.

Fig 19 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Loan	28,575,907	32,948,021	28,650,453	33,291,827	(0.3)	(1.0)
Deposits	28,081,478	33,697,774	29,271,371	35,711,073	(4.1)	(5.6)
Assets	40,725,777	46,457,435	42,250,050	48,160,745	(3.6)	(3.5)
NII	1,319,343	1,582,945	1,401,509	1,649,566	(5.9)	(4.0)
PPOP	1,118,431	1,332,295	1,183,205	1,401,366	(5.5)	(4.9)
Provision	143,843	224,605	185,881	227,440	(22.6)	(1.2)
PAT	728,992	828,552	745,998	878,096	(2.3)	(5.6)

Source: BOBCAPS Research

Fig 20 – Key operational assumptions

(%)	FY24	FY25E	FY26E	FY27E
Advances growth	55.2	15.0	15.3	16.2
NII growth	25.0	21.6	20.0	19.8
PPoP growth	34.1	18.5	19.1	19.6
PAT growth	37.9	19.9	13.7	18.5
NIM	3.8	3.7	3.9	4.0
GNPA	1.2	1.4	1.3	1.3
CAR	18.8	18.1	17.4	16.7

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 (%)	16.1
Initial high growth period (years)	10.0
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	8.0
Long term dividend payout ratio (%)	50.0
Justified P/BV (x)	2.2

Source: Company, BOBCAPS Research

Fig 22 – Valuation summary

Business	Valuation	Holdings	Rs/Share
HDFC Bank	2.2x FY26E ABV	100	1,650
HDFC Life	Mcap	50.4	77
HDFC AMC	Mcap	52.6	51
HDFC Ergo	33x FY26E EPS	50.5	22
HDB Financials	2.1x FY26E ABV	94.7	45
HDFC Securities	20x FY26E EPS	95.5	27
Total	-	-	1,872

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.

Glossary

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	868,422	1,085,325	1,319,343	1,582,945	1,896,247
Nil growth (%)	20.6	25.0	21.6	20.0	19.8
Non-interest income	312,148	492,410	562,469	640,797	738,317
Total income	1,180,570	1,577,735	1,881,812	2,223,741	2,634,564
Operating expenses	476,521	633,860	763,381	891,446	1,041,273
PPOP	704,050	943,875	1,118,431	1,332,295	1,593,291
PPOP growth (%)	9.9	34.1	18.5	19.1	19.6
Provisions	119,197	234,921	143,843	224,605	281,183
PBT	584,853	708,953	974,588	1,107,690	1,312,108
Tax	143,766	100,830	245,596	279,138	330,651
Reported net profit	441,087	608,123	728,992	828,552	981,457
Adjustments	0	0	0	0	0
Adjusted net profit	441,087	608,123	728,992	828,552	981,457

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity capital	5,580	7,597	7,608	7,608	7,608
Reserves & surplus	2,796,410	4,394,861	4,949,819	5,579,518	6,325,425
Net worth	2,801,990	4,402,458	4,957,427	5,587,126	6,333,033
Deposits	18,833,946	23,797,863	28,081,478	33,697,774	40,471,026
Borrowings	2,067,656	6,621,531	4,833,717	3,818,637	3,131,282
Other liab. & provisions	957,222	1,354,379	2,853,155	3,353,898	4,058,466
Total liab. & equities	24,660,815	36,176,231	40,725,777	46,457,435	53,993,807
Cash & bank balance	1,937,651	2,191,474	2,147,177	2,687,397	3,226,343
Investments	5,170,014	7,024,150	7,572,298	8,451,793	9,734,246
Advances	16,005,859	24,848,615	28,575,907	32,948,021	38,285,601
Fixed & Other assets	1,547,291	2,111,992	2,430,395	2,370,223	2,747,617
Total assets	24,660,815	36,176,231	40,725,777	46,457,435	53,993,807
Deposit growth (%)	20.8	26.4	18.0	20.0	20.1
Advances growth (%)	16.9	55.2	15.0	15.3	16.2

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
EPS	79.3	92.3	95.9	108.9	129.0
Dividend per share	19.0	19.5	23.0	26.1	31.0
Book value per share	502.2	579.5	651.6	734.4	832.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
P/E	20.3	17.4	16.8	14.8	12.5
P/BV	3.2	2.8	2.5	2.2	1.9
Dividend yield (%)	1.2	1.2	1.4	1.6	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Net interest income	3.8	3.6	3.4	3.6	3.8
Non-interest income	1.4	1.6	1.5	1.5	1.5
Operating expenses	2.1	2.1	2.0	2.0	2.1
Pre-provisioning profit	3.1	3.1	2.9	3.1	3.2
Provisions	0.5	0.8	0.4	0.5	0.6
PBT	2.6	2.3	2.5	2.5	2.6
Tax	0.6	0.3	0.6	0.6	0.7
ROA	1.9	2.0	1.9	1.9	2.0
Leverage (x)	8.7	8.4	8.2	8.3	8.4
ROE	17.0	16.9	15.6	15.7	16.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Net interest income	20.6	25.0	21.6	20.0	19.8
Pre-provisioning profit	9.9	34.1	18.5	19.1	19.6
EPS	18.6	16.4	3.9	13.6	18.5
Profitability & Return ratios (%)					
Net interest margin	4.1	3.8	3.7	3.9	4.0
Fees / Avg. assets	1.1	0.9	0.9	1.0	1.0
Cost-Income	40.4	40.2	40.6	40.1	39.5
ROE	17.0	16.9	15.6	15.7	16.5
ROA	1.9	2.0	1.9	1.9	2.0
Asset quality (%)					
GNPA	1.1	1.2	1.4	1.3	1.3
NNPA	0.3	0.3	0.4	0.4	0.3
Slippage ratio	1.8	2.5	1.5	1.5	1.5
Credit cost	0.8	1.2	0.5	0.7	0.8
Provision coverage	75.8	74.0	72.0	73.0	73.0
Ratios (%)					
Credit-Deposit	85.0	104.4	101.8	97.8	94.6
Investment-Deposit	27.5	29.5	27.0	25.1	24.1
CAR	19.3	18.8	18.1	17.4	16.7
Tier-1	17.1	16.8	16.7	16.5	16.0

Source: Company, BOBCAPS Research

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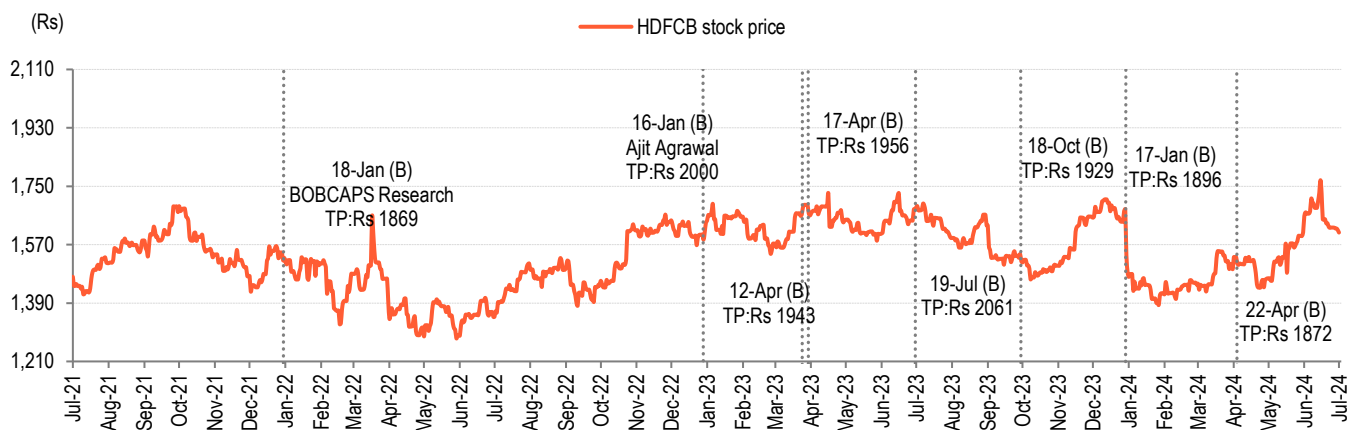
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Ratings and Target Price (3-year history): HDFC BANK (HDFCB IN)



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