

**BUY**

TP: Rs 1,872 | ▲ 24%

**HDFC BANK**

| Banking

| 22 April 2024

## Realigning business dynamics in 4Q to improve profitability

- 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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### 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%/0.31% 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%

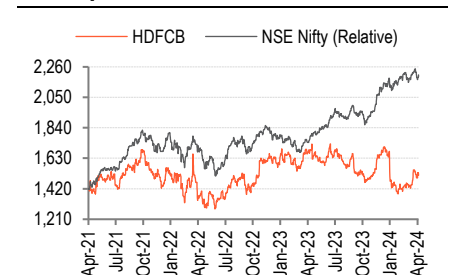
Source: NSE | Price as of 22 Apr 2024

### 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



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

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Income Statement</b>							
Interest Income	356,428	380,080	542,945	567,726	581,450	63.1	2.4
Income on investments	83,764	89,112	116,395	122,158	115,978	38.5	(5.1)
Int. on bal. with RBI & inter-bank funds & Others	11,001	16,676	17,644	15,943	17,300	57.3	8.5
<b>Interest income</b>	<b>451,194</b>	<b>485,868</b>	<b>676,984</b>	<b>705,826</b>	<b>714,728</b>	<b>58.4</b>	<b>1.3</b>
Interest expense	217,675	249,877	403,132	421,113	423,959	94.8	0.7
<b>Net interest income</b>	<b>233,518</b>	<b>235,991</b>	<b>273,852</b>	<b>284,713</b>	<b>290,768</b>	<b>24.5</b>	<b>2.1</b>
Growth YoY (%)	23.7	21.1	30.3	23.9	24.5	78bps	66bps
Fee Income	66,281	62,900	69,360	69,400	79,900	20.5	15.1
Trading gains/(losses)	(377)	5,520	10,410	14,700	75,900	(20232.6)	416.3
Forex Income	13,090	12,210	12,100	11,400	11,400	(12.9)	0.0
Others	8,318	11,669	15,208	15,870	14,463	73.9	(8.9)
<b>Non-interest income</b>	<b>87,312</b>	<b>92,299</b>	<b>107,078</b>	<b>111,370</b>	<b>181,663</b>	<b>108.1</b>	<b>63.1</b>
Growth YoY (%)	14.3	44.5	41.0	31.0	108.1	9374bps	7704bps
<b>Total Income</b>	<b>320,830</b>	<b>328,289</b>	<b>380,931</b>	<b>396,084</b>	<b>472,431</b>	<b>47.3</b>	<b>19.3</b>
Growth YoY (%)	21.0	26.9	33.1	25.8	47.3	2623bps	2146bps
Staff expenses	43,621	47,821	51,702	53,518	69,362	59.0	29.6
Other operating expenses	91,001	92,748	102,290	106,093	110,326	21.2	4.0
<b>Operating expenses</b>	<b>134,621</b>	<b>140,569</b>	<b>153,992</b>	<b>159,611</b>	<b>179,688</b>	<b>33.5</b>	<b>12.6</b>
<b>Pre-Provisioning Profit (PPoP)</b>	<b>186,209</b>	<b>187,720</b>	<b>226,939</b>	<b>236,473</b>	<b>292,742</b>	<b>57.2</b>	<b>23.8</b>
Growth YoY (%)	13.8	22.2	30.5	24.3	57.2	4337bps	3291bps
Provisions	26,854	28,600	29,038	42,166	135,116	403.2	220.4
Growth YoY (%)	(18.9)	(10.3)	(10.4)	50.2	403.2	42209bps	35291bps
PBT	159,355	159,120	197,901	194,307	157,626	(1.1)	(18.9)
Tax	38,881	39,602	38,139	30,581	(7,493)	(119.3)	(124.5)
<b>PAT</b>	<b>120,475</b>	<b>119,518</b>	<b>159,761</b>	<b>163,725</b>	<b>165,119</b>	<b>37.1</b>	<b>0.9</b>
Growth YoY (%)	19.8	30.0	50.6	33.5	37.1	1724bps	351bps
<b>Per Share</b>							
FV (Rs)	1	1	1	1	1	0.0	0.0
EPS (Rs)	22	21	21	22	22	0.6	0.7
Book Value (Rs)	503	526	535	557	581	15.3	4.2

Source: Company, BOBCAPS Research

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

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Deposits	18,833,947	19,130,958	21,728,578	22,139,770	23,797,863	26.4	7.5
Growth YoY (%)	20.8	19.2	29.8	27.7	26.4	557bps	(138bps)
Advances	16,005,859	16,156,720	23,312,329	24,460,757	24,848,615	55.2	1.6
Growth YoY (%)	16.9	15.8	57.5	62.3	55.2	3,832bps	(709bps)
Investment	5,170,014	5,657,776	7,234,359	6,749,314	7,024,150	35.9	4.1
Equity	2,807,570	2,943,738	4,057,880	4,230,591	4,410,055	57.1	4.2
Assets	24,660,815	25,016,930	34,163,102	34,926,389	36,176,231	46.7	3.6
Growth YoY (%)	19.2	18.6	53.3	52.2	46.7	2,748bps	(547bps)

(Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Yield (%)</b>							
Yield on Funds	8.08	8.35	9.70	8.63	8.53	44bps	(11bps)
Cost of Funds	4.32	4.75	6.43	5.77	5.66	134bps	(11bps)
Spread	3.77	3.61	3.26	2.87	2.87	(90bps)	0bps
Net Interest Margin (calc.)	4.18	4.06	3.92	3.48	3.47	(71bps)	(1bps)
<b>Ratios (%)</b>							
Other Income / Net Income	27.2	28.1	28.1	28.1	38.5	1,124bps	1,033bps
Cost to Income ratio	42.0	42.8	40.4	40.3	38.0	(393bps)	(226bps)
CASA ratio	44.4	42.5	37.6	37.9	38.2	(620bps)	30bps
C/D ratio	85.0	84.5	107.3	110.5	104.4	1,943bps	(607bps)
Investment to Assets	21.0	22.6	21.2	19.3	19.4	(155bps)	9bps
<b>Assets Quality</b>							
GNPA	180,190	190,641	315,779	310,117	311,733	73.0	0.52
NNPA	43,684	47,769	80,728	76,641	80,917	85.2	5.6
Provision	136,506	142,873	235,051	233,476	230,816	69.1	(1.1)
GNPA (%)	1.12	1.17	1.34	1.26	1.24	12bps	(2bps)
NNPA (%)	0.27	0.30	0.35	0.31	0.33	6bps	2bps
PCR (%)	75.8	74.9	74.4	75.3	74.0	(171bps)	(124bps)
<b>Others (Nos.)</b>							
Branches	7,821	7,860	7,945	8,091	8,738	917	647
ATMs	19,727	20,352	20,596	20,688	20,938	1,211	250
Employees	173,222	181,725	197,899	208,066	213,527	40,305	5,461

Source: Company, BOBCAPS Research

**Fig 3 – Segmental loan book distribution**

(Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	Mix (%)
<b>Retail Loans</b>												
Home Loans	830,560	882,490	930,500	975,930	1,020,670	6,927,670	7,170,700	7,433,000	7,728,000	657.1	4.0	31.0
Loan Against Property	622,480	651,160	693,130	724,360	767,730	-	-	-	-			
Auto Loans	1,004,630	1,040,030	1,087,880	1,124,420	1,174,290	1,217,320	1,255,160	1,280,000	1,311,000	11.6	2.4	5.3
Two Wheelers	92,880	91,950	95,970	97,590	99,330	103,670	109,570	113,000	118,000	18.8	4.4	0.5
Gold Loans	83,500	88,080	94,340	100,420	108,420	116,910	126,040	131,000	138,000	27.3	5.3	0.6
Personal Loans	1,401,270	1,479,280	1,548,200	1,646,410	1,716,760	1,767,340	1,786,910	1,815,000	1,846,000	7.5	1.7	7.4
Payment products	767,570	801,420	819,660	833,140	861,040	904,360	909,070	971,000	1,002,000	16.4	3.2	4.0
Other retail Loans	514,790	544,400	535,800	411,000	597,540	594,980	445,000	446,000	469,000	(21.5)	5.2	1.9
<b>Total Retail Loans</b>	<b>5,317,680</b>	<b>5,578,810</b>	<b>5,805,480</b>	<b>5,913,270</b>	<b>6,345,780</b>	<b>11,632,250</b>	<b>11,802,450</b>	<b>12,189,000</b>	<b>12,612,000</b>	<b>98.7</b>	<b>3.5</b>	<b>50.6</b>
<b>Commercial &amp; Rural Banking</b>												
Emerging Corporates	1,478,350	1,527,810	1,645,580	1,706,230	1,831,510	1,877,830	2,059,630	2,212,000	2,168,000	18.4	(2.0)	8.7
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	3,217,000	26.9	4.9	12.9
Commercial Transportation	807,570	845,370	918,900	996,840	1,108,310	1,163,950	1,237,500	1,313,000	1,374,000	24.0	4.6	5.5
Agriculture	646,450	615,790	702,780	709,120	817,190	796,370	904,870	930,000	1,053,000	28.9	13.2	4.2
<b>Total Commercial Rural Banking</b>	<b>4,848,360</b>	<b>4,980,650</b>	<b>5,447,400</b>	<b>5,885,680</b>	<b>6,291,530</b>	<b>6,428,280</b>	<b>7,244,150</b>	<b>7,730,000</b>	<b>8,056,000</b>	<b>28.0</b>	<b>4.2</b>	<b>32.3</b>
Corporate & Other Wholesale	3,640,110	3,639,390	3,967,790	3,922,540	4,097,120	4,046,370	4,281,090	4,363,000	4,268,000	4.2	(2.2)	17.1
<b>Total Gross Loan</b>	<b>13,806,150</b>	<b>14,198,850</b>	<b>15,220,670</b>	<b>15,721,490</b>	<b>16,734,430</b>	<b>22,106,900</b>	<b>23,327,690</b>	<b>24,282,000</b>	<b>24,936,000</b>	<b>49.0</b>	<b>2.7</b>	<b>100</b>

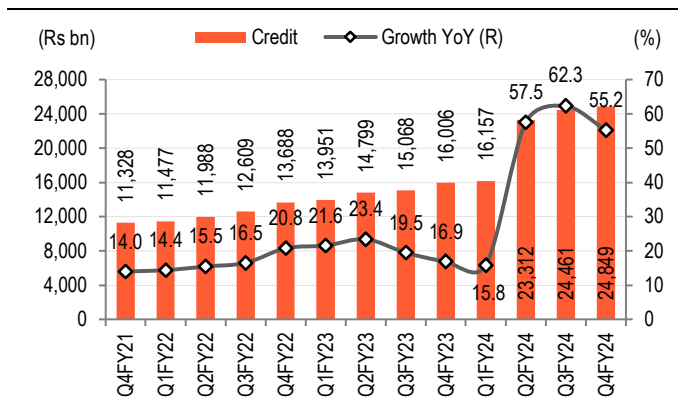
Source: Company, BOBCAPS Research

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

(%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
<b>Retail Loans</b>											
Home Loans	6.0	6.2	6.1	6.2	6.1	31.3	30.7	30.6	31.0	2,489bps	38bps
Loan Against Property	4.5	4.6	4.6	4.6	4.6	0.0	0.0	0.0	0.0	(459bps)	0bps
Auto Loans	7.3	7.3	7.1	7.2	7.0	5.5	5.4	5.3	5.3	(176bps)	(1bps)
Two Wheelers	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	(12bps)	1bps
Gold Loans	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6	(9bps)	1bps
Personal Loans	10.1	10.4	10.2	10.5	10.3	8.0	7.7	7.5	7.4	(286bps)	(7bps)
Payment products	5.6	5.6	5.4	5.3	5.1	4.1	3.9	4.0	4.0	(113bps)	2bps
Other retail Loans	3.7	3.8	3.5	2.6	3.6	2.7	1.9	1.8	1.9	(169bps)	4bps
<b>Total Retail Loans</b>	<b>38.5</b>	<b>39.3</b>	<b>38.1</b>	<b>37.6</b>	<b>37.9</b>	<b>52.6</b>	<b>50.6</b>	<b>50.2</b>	<b>50.6</b>	<b>1,266bps</b>	<b>38bps</b>
<b>Commercial &amp; Rural Banking</b>											
Emerging Corporates	10.7	10.8	10.8	10.9	10.9	8.5	8.8	9.1	8.7	(225bps)	(42bps)
Business Banking	13.9	14.0	14.3	14.8	15.1	11.7	12.2	12.6	12.9	(224bps)	27bps
Commercial Transportation	5.8	6.0	6.0	6.3	6.6	5.3	5.3	5.4	5.5	(111bps)	10bps
Agriculture	4.7	4.3	4.6	4.5	4.9	3.6	3.9	3.8	4.2	(66bps)	39bps
<b>Total Commercial Rural Banking</b>	<b>35.1</b>	<b>35.1</b>	<b>35.8</b>	<b>37.4</b>	<b>37.6</b>	<b>29.1</b>	<b>31.1</b>	<b>31.8</b>	<b>32.3</b>	<b>(529bps)</b>	<b>47bps</b>
Corporate & Other Wholesale	26.4	25.6	26.1	25.0	24.5	18.3	18.4	18.0	17.1	(737bps)	(85bps)
<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>	-	-

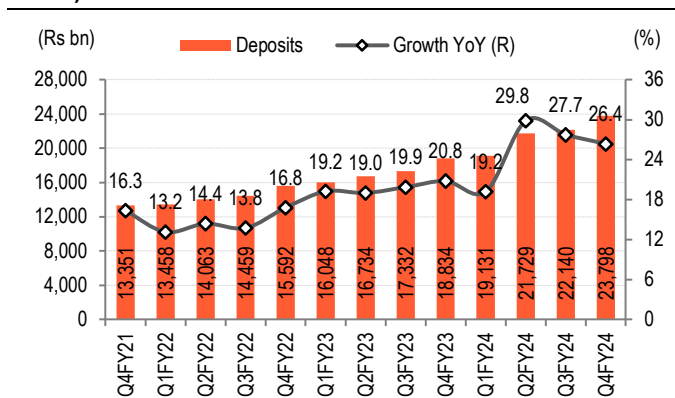
Source: Company, BOBCAPS Research

**Fig 5 – Credit grew 1.6% QoQ driven by CRB**



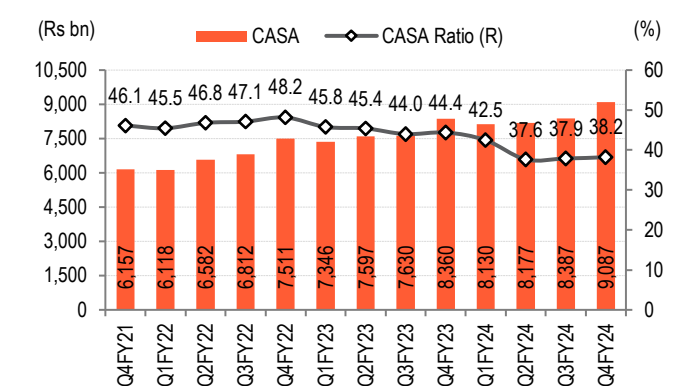
Source: Company, BOBCAPS Research

**Fig 6 – Deposits outpaced loan growth sequentially (4.2% QoQ)**



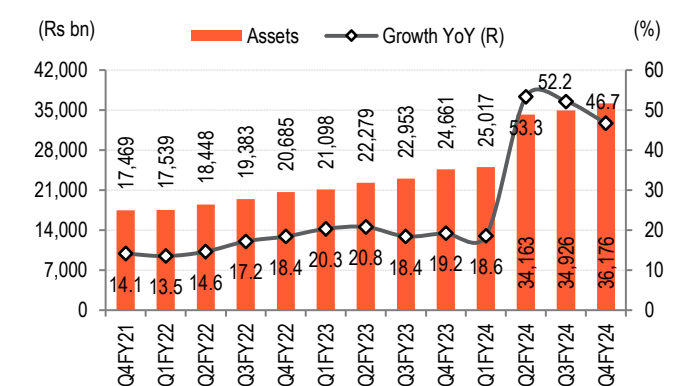
Source: Company, BOBCAPS Research

**Fig 7 – CASA improved 30 bps QoQ**



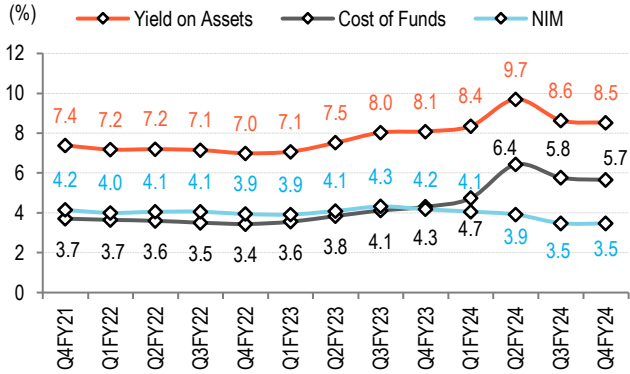
Source: Company, BOBCAPS Research

**Fig 8 – Asset growth remained healthy**



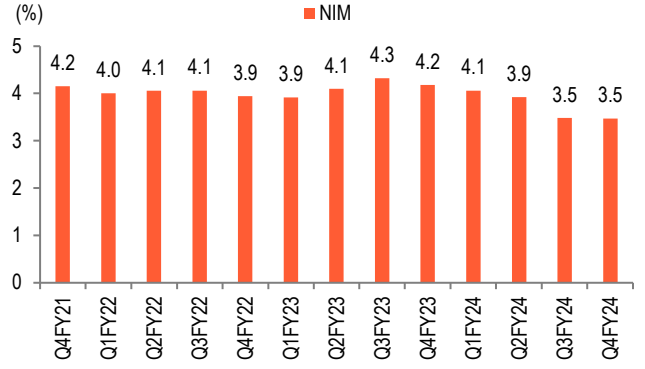
Source: Company, BOBCAPS Research

**Fig 9 – Rise on yield supported margin**



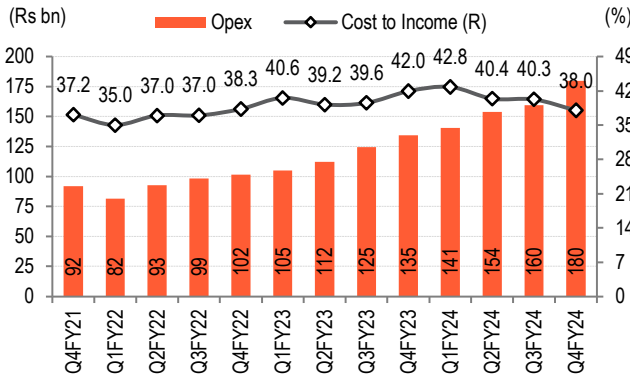
Source: Company, BOBCAPS Research

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



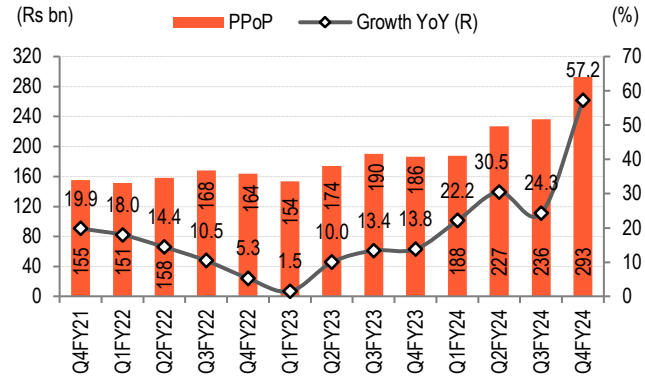
Source: Company, BOBCAPS Research

**Fig 11 – C/I improved on one-off gains**



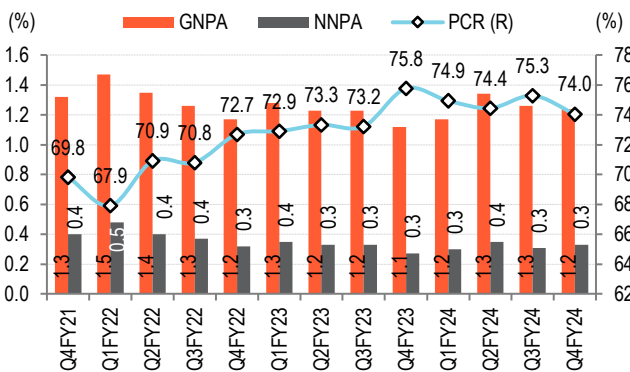
Source: Company, BOBCAPS Research

**Fig 12 – One-off gain in other income supported PPOP**



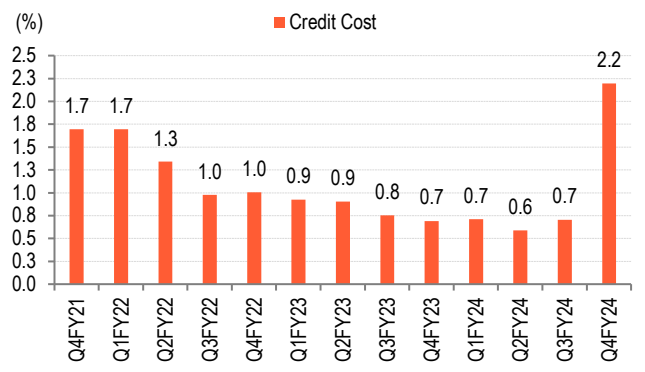
Source: Company, BOBCAPS Research

**Fig 13 – Asset quality stable QoQ**



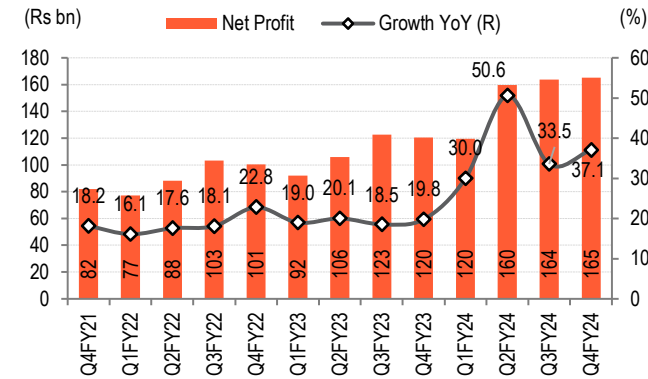
Source: Company, BOBCAPS Research

**Fig 14 – Credit cost increased due to floating provision**



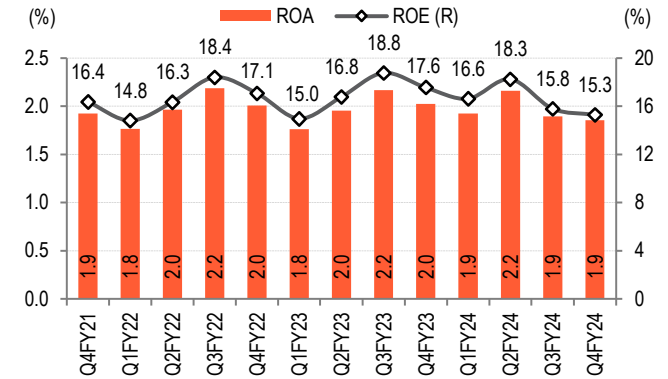
Source: Company, BOBCAPS Research

**Fig 15 – Tax writeback helped PAT growth**



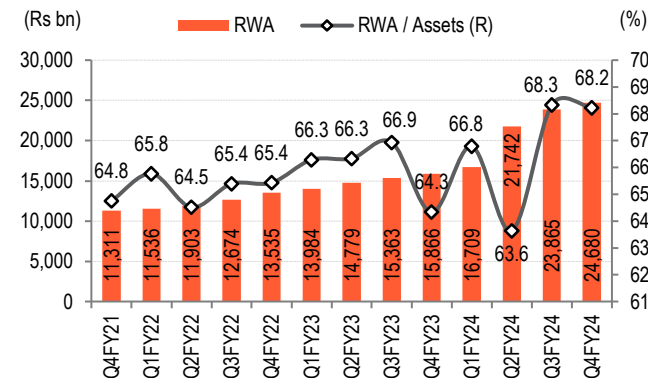
Source: Company, BOBCAPS Research

**Fig 16 – Return ratios tapered in line with profitability**



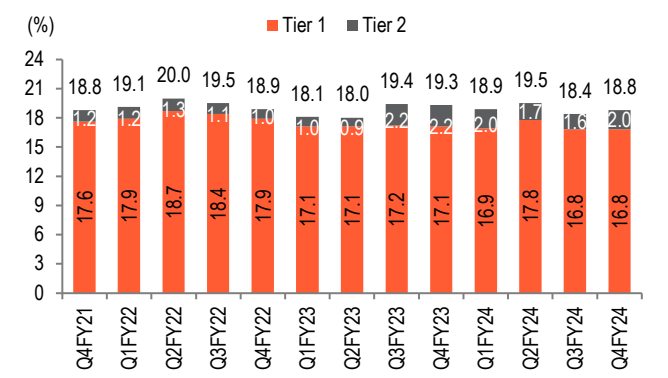
Source: Company, BOBCAPS Research

**Fig 17 – RWA/Assets remain stable**



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

**Fig 18 – Well capitalised with CAR of 18.8%**



Source: Company, BOBCAPS Research

## Earnings call takeaways

### Loan book

- HDFCB's loans grew 55.2% YoY (1.6% QoQ; merged basis) in Q4FY24, while ex-merger it grew by 17.3% YoY.
- Retail advances grew 3.5% sequentially (3.3% in Q3), CRB advances were up 4.2% (6.7% in Q3) and the wholesale segment, excluding HDFC's non-individual loans, remained subdued at -2.2% (1.9% in Q3).
- As indicated by management, HDFC's non-individual loans continue to run down and stood at Rs 807bn in Q4 (down 18% QoQ) vs. Rs 989bn in Q3.
- Management strategically avoids competitive intensity over product pricing and let go some credit demands to focus on margin and improve overall profitability. Further it is planning to increase the retail book, specifically the ex-mortgage unsecured book, to support margins.
- The CD ratio cool-off by 607bps on a sequential basis to 104% after reaching an all-time high of 110% in Q3 was mainly due to a change in liability mix post-merger. 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 Q4FY24, deposits increased by 7.5% QoQ wherein CASA deposits grew by 8.3% and term deposits by 7%. The bank took a conscious decision to focus on low-cost CASA rather than high-cost term deposits. The retail share in deposits stood at 84%, supporting a 30bps sequential rise in CASA ratio to 38.2%.
- LCR during the quarter showed some improvement and reached 115% vs. 110% in Q3, and management expects further improvement over the coming quarters.

### Asset quality

- Slippages for the quarter were at Rs 73bn or 26bps of advances vs. Rs 70bn or 26bps in Q3.
- Recoveries and upgrades totalled Rs 45bn while write-offs stood at Rs 26bn. There was no sale to ARC during the quarter.
- PCR stood at 74% with contingent and floating provisions at Rs 273bn and general provisions at Rs 106bn. Total provisioning stood at Rs 610bn and 196% of GNPA or 242bps of advances.
- Credit cost (reported) declined 7bps QoQ to 42 bps excluding the one-off provision of Rs 109 bn towards floating provision.
- RWA/Assets ratio remained flat at 68%.

### Other income

- The bank booked Rs 73bn (pretax) from its stake sale in Credila, one-off in nature, boosting other income during the quarter – which jumped 63% QoQ and 108% YoY.
- Total income grew 47.3% YoY and 19% QoQ, supported by strong other income.

### Opex

- The bank provided Rs 15bn towards staff ex-gratia as a one-off provision and excluding all one-offs (in other income and opex) the C/I ratio stood at 41.3% vs. 40.3%. Otherwise, as reported, C/I ratio improved 226 bps QoQ to 38.2%.
- HDFCB added 647 branches, 250 ATMs and 5,461 employees during the quarter.

### Net interest margin

- Reported core NIM was at 3.4% on total assets (improving 4bps QoQ) and 3.6% on interest-earning assets, the latter being flat on a sequential basis.
- The bank expects the funding mix to change wherein some high-cost borrowings would be replaced by deposits (mainly retail deposits) once the maturity kicks in, to improve overall margin. 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 bank will prudently price its product line to improve margin.

## Subsidiary performance

### HDB Financials

- HDB Financials opened 64 branches in Q4FY24, taking its network to 1,682 branches spread across 1,144 cities.
- The subsidiary's loan book stood at Rs 902bn, rising 29% YoY (+7% QoQ), on a customer base of 15.5mn (~1mn added during the quarter).
- NIM came in at 7.6%, net profit at Rs 6.6bn (+20% YoY) and EPS at Rs 8.3.
- Stage 3 loans stood at 1.9% of advances vs. 2.2% in Q3FY24 and 2.73% in Q4FY23.
- The company reported ROA of 3.0% (-10bps QoQ) and ROE of 19.2% (-70bps QoQ).

### HDFC Life

- HDFC Life sold 401,000 individual policies during Q4 and had an individual weighted received premium market share of 16.1%.
- Premium income totalled Rs 202bn, rising 7% YoY, and AUM grew 23% YoY to Rs 2.9tn.
- New business premium was at Rs 95bn with the new business margin at 26.1%.
- PAT grew 15% YoY to Rs 4.1bn and the solvency ratio stood at 187%.
- Embedded value at Rs 475bn improved 20% YoY.

### HDFC AMC

- Quarterly average AUM totalled Rs 6.1tn, constituting 11.3% market share. About 60% of quarterly average AUM is equity oriented.
- The AMC has 9.6mn unique investors.
- Total income stood at Rs 8.5bn in Q4, net profit at Rs 5.4bn, and EPS at Rs 25.4.

### HDFC ERGO

- Gross direct premium market share was 6.8% overall and 10.2% among private sector players.
- Retail mix in the business is 71%.
- The company has a distribution network of 266 branches and 497 digital offices.
- A total of 3.2mn policies were issued during Q4.
- Gross written premium of Rs 52.1bn grew 11% YoY and net loss stood at Rs 1.3bn vs. Rs 2.1bn a year ago. The solvency ratio stood at 168%.



### **HDFC Securities**

- HDFC Securities reported revenue of Rs 8.6bn and PAT of Rs 3.2bn for the quarter.
- The company has a network of 184 branches spread across 139 cities and towns.
- The client base totalled 5.4mn as of Q4FY24 with ~95% of active clients using the digital platform.

## Valuation methodology

As per 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 loan estimates for HDFCB by 3.3%/4.3% while increasing our deposit estimates by 2.1%/2.7% for the same period. With this revision we estimate a credit CAGR of 15.7% over FY24-FY26 and deposit CAGR of 22.5% over the same period, likely resulting in C/D ratios of 98%/93% 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, while 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 ~3.8%/3.9% for FY25/FY26 vs. our earlier estimates of 3.9%/4%.

We project non-core income 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 in credit costs of 70-80bps over FY25-FY26. We adjust our FY24/FY25 PAT estimates by -1.5%/-3% to bake in the Q4FY24 results and forecast a 20% 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. With the recent stock price correction, we believe most of the negatives are factored into the price and we retain our BUY rating, although margin movement would be a key aspect to watch. With estimate revisions, we reset our target P/ABV from 2.4x to 2.3x based on the Gordon Growth Model. Adding in Rs 214/sh as the value of subsidiaries, we arrive at a new SOTP-based TP of Rs 1,872 (previously Rs 1,896) for the stock.

**Fig 19 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Loan	28,650,453	33,291,827	29,613,720	34,796,121	(3.3)	(4.3)
Deposits	29,271,371	35,711,073	28,673,403	34,780,838	2.1	2.7
Assets	42,250,050	48,160,745	41,209,814	48,772,908	2.5	(1.3)
NII	1,401,509	1,649,566	1,420,161	1,688,807	(1.3)	(2.3)
PPOP	1,183,205	1,401,366	1,201,556	1,443,204	(1.5)	(2.9)
Provision	185,881	227,440	189,157	234,573	(1.7)	(3.0)
PAT	745,998	878,096	757,275	904,056	(1.5)	(2.9)

Source: BOBCAPS Research

**Fig 20 – Key operational assumptions**

(%)	FY23	FY24	FY25E	FY26E
Advances growth	16.9	55.2	15.3	16.2
NII growth	20.6	25.0	29.1	17.7
PPoP growth	9.9	34.1	25.4	18.4
PAT growth	19.3	37.9	22.7	17.7
NIM	4.1	3.8	3.8	3.9
GNPA	1.1	1.2	1.3	1.4
CAR	19.3	18.8	17.8	17.1

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 (%)	16.2
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)	2.3

Source: Company, BOBCAPS Research

**Fig 22 – Valuation summary**

Business	Valuation	Holdings	Rs/Share
HDFC Bank	2.3x FY26E ABV	100	1,658
HDFC Life	Mcap	50.37	73
HDFC AMC	Mcap	52.6	46
HDFC Ergo	33x FY26E EPS	50.5	22
HDB Financials	2.1x FY26E ABV	94.74	45
HDFC Securities	20x FY26E EPS	95.5	27
<b>Total</b>	-	-	<b>1,872</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	39.6	1,054	1,252	BUY
Bandhan Bank	BANDHAN IN	3.5	181	270	BUY
DCB Bank	DCBB IN	0.5	123	172	BUY
Federal Bank	FB IN	4.5	154	189	BUY
HDFC Bank	HDFCB IN	138.7	1,512	1,872	BUY
ICICI Bank	ICICIBC IN	92.8	1,087	1,189	BUY
IDFC First Bank	IDFCBK IN	6.8	83	96	BUY
Indusind Bank	IIB IN	14.0	1,478	1,952	BUY
Kotak Mahindra Bank	KMB IN	47.2	1,810	2,100	BUY
RBL Bank	RBK IN	1.9	258	309	BUY
State Bank of India	SBIN IN	83.2	766	842	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Apr 2024

## Glossary

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

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Net interest income</b>	<b>720,096</b>	<b>868,422</b>	<b>1,085,325</b>	<b>1,401,509</b>	<b>1,649,566</b>
Nil growth (%)	11.0	20.6	25.0	29.1	17.7
Non-interest income	295,099	312,148	492,410	552,905	650,958
Total income	1,015,195	1,180,570	1,577,735	1,954,414	2,300,524
Operating expenses	374,422	476,521	633,860	771,209	899,158
PPOP	640,773	704,050	943,874	1,183,205	1,401,366
PPOP growth (%)	11.7	9.9	34.1	25.4	18.4
Provisions	150,618	119,197	234,921	185,881	227,440
PBT	490,155	584,853	708,953	997,324	1,173,926
Tax	120,541	143,766	100,830	251,326	295,829
<b>Reported net profit</b>	<b>369,614</b>	<b>441,087</b>	<b>608,123</b>	<b>745,998</b>	<b>878,096</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>369,614</b>	<b>441,087</b>	<b>608,123</b>	<b>745,998</b>	<b>878,096</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Equity capital	5,546	5,580	7,597	7,597	7,597
Reserves & surplus	2,395,384	2,796,410	4,394,861	4,961,820	5,629,173
Net worth	2,400,929	2,801,990	4,402,458	4,969,417	5,636,770
Deposits	15,592,174	18,833,946	23,797,863	29,271,371	35,711,073
Borrowings	1,848,172	2,067,656	6,621,531	5,628,301	4,446,358
Other liab. & provisions	844,075	957,222	1,354,379	2,380,961	2,366,544
<b>Total liab. &amp; equities</b>	<b>20,685,350</b>	<b>24,660,815</b>	<b>36,176,231</b>	<b>42,250,050</b>	<b>48,160,745</b>
Cash & bank balance	1,523,269	1,937,651	2,191,474	2,069,700	2,729,263
Investments	4,555,357	5,170,014	7,024,150	8,818,074	9,757,423
Advances	13,688,209	16,005,859	24,848,615	28,650,453	33,291,827
Fixed & Other assets	918,514	1,547,291	2,111,992	2,711,822	2,382,232
<b>Total assets</b>	<b>20,685,350</b>	<b>24,660,815</b>	<b>36,176,231</b>	<b>42,250,050</b>	<b>48,160,745</b>
Deposit growth (%)	16.8	20.8	26.4	23.0	22.0
Advances growth (%)	20.8	16.9	55.2	15.3	16.2

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
EPS	66.8	79.3	92.3	98.2	115.6
Dividend per share	6.5	19.0	19.5	23.6	27.7
Book value per share	432.9	502.2	579.5	654.1	742.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
P/E	22.6	19.1	16.4	15.4	13.1
P/BV	3.5	3.0	2.6	2.3	2.0
Dividend yield (%)	0.4	1.3	1.3	1.6	1.8

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Net interest income	3.8	3.8	3.6	3.6	3.6
Non-interest income	1.5	1.4	1.6	1.4	1.4
Operating expenses	2.0	2.1	2.1	2.0	2.0
Pre-provisioning profit	3.4	3.1	3.1	3.0	3.1
Provisions	0.8	0.5	0.8	0.5	0.5
PBT	2.6	2.6	2.3	2.5	2.6
Tax	0.6	0.6	0.3	0.6	0.7
ROA	1.9	1.9	2.0	1.9	1.9
Leverage (x)	8.6	8.7	8.4	8.4	8.5
ROE	16.7	17.0	16.9	15.9	16.6

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Net interest income	11.0	20.6	25.0	29.1	17.7
Pre-provisioning profit	11.7	9.9	34.1	25.4	18.4
EPS	18.1	18.6	16.4	6.4	17.7
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.9	4.1	3.8	3.8	3.9
Fees / Avg. assets	1.0	1.1	0.9	0.9	1.0
Cost-Income	36.9	40.4	40.2	39.5	39.1
ROE	16.7	17.0	16.9	15.9	16.6
ROA	1.9	1.9	2.0	1.9	1.9
<b>Asset quality (%)</b>					
GNPA	1.2	1.1	1.2	1.3	1.4
NNPA	0.3	0.3	0.3	0.3	0.3
Slippage ratio	2.4	1.8	1.7	1.8	1.7
Credit cost	1.2	0.8	1.2	0.7	0.7
Provision coverage	72.7	75.8	75.0	76.0	76.0
<b>Ratios (%)</b>					
Credit-Deposit	87.8	85.0	104.4	97.9	93.2
Investment-Deposit	29.2	27.5	29.5	30.1	27.3
CAR	18.9	19.3	18.8	17.8	17.1
Tier-1	17.9	17.1	16.8	16.2	16.1

Source: Company, BOBCAPS Research

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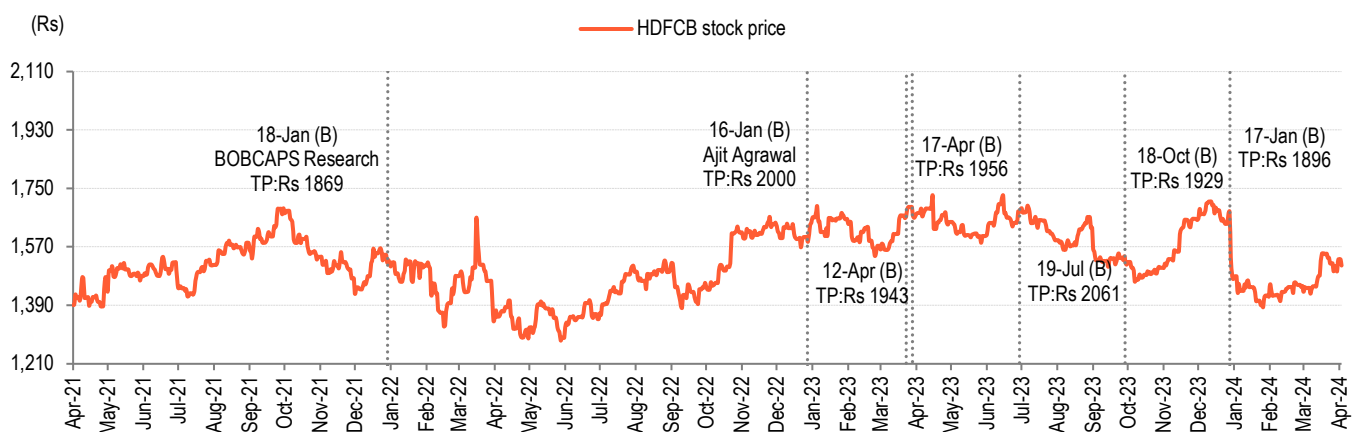
**HOLD** – Expected return from -6% to +15%

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

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