

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	HDFCB IN
Equity Shares (m)	7,538
M.Cap.(INRb)/(USD\$)	12657.1 / 154.3
52-Week Range (INR)	1758 / 1338
1, 6, 12 Rel. Per (%)	0/-5/0
12M Avg Val (INR M)	16619

#### Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	868	1,221	1,439
OP	704	1,026	1,218
NP	441	655	798
NIM (%)	4.1	3.8	3.9
EPS (INR)	79.3	87.0	106.1
EPS Gr. (%)	18.6	9.7	21.9
BV/Sh. (INR)	502	597	681
ABV/Sh. (INR)	489	580	662

#### Ratios

RoE (%)	17.0	15.5	16.6
RoA (%)	1.9	1.9	2.0

#### Valuations

P/E(X)	21.2	19.3	15.8
P/BV (X)	3.3	2.8	2.5
P/ABV (X)	3.0	2.5	2.2

#### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	20.8	20.9	21.0
DII	22.0	23.1	22.2
FII	45.6	44.7	44.8
Others	11.5	11.3	12.0

FII Includes depository receipts

**CMP: INR1,679**      **TP: INR2,070 (+23%)**      **Buy**

## Steady quarter; lower provision drives earnings beat

### Business growth modest - outlook healthy

- HDFCB reported a steady quarter with 30% YoY growth in PAT (8% beat). This was supported by lower provisions and higher 'other income'. NII grew 21% YoY, while PPOp grew 22% YoY to INR187.7b (in line).
- Loan growth was driven by strong traction in Commercial and Rural Banking and a sequential pick-up in retail. Deposits registered a modest growth of 1.6% QoQ.
- Asset quality ratios remained broadly stable as slippages increased to INR58b. The restructured book declined to 27bp of loans (vs. 31bp in 4QFY23). PCR declined 81bp QoQ to 74.9%.
- We introduce forecasts for the merged entity and estimate the bank to deliver net earnings of INR654b/798b/957b over FY24-26, translating into RoA of 1.9-2.1%. We reiterate our **BUY** rating on the stock.

### PAT grew 30% YoY; margin stable at 4.1%

- NII grew 21% YoY to INR236b (4% miss), while margins were stable at 4.1%. PAT grew 30% YoY to INR119.5b (8% beat).
- 'Other income' grew 44.5% YoY and 5.7% QoQ to INR92b, aided by treasury gain of INR5.5b in 1QFY24 vs. a treasury loss of INR13.1b in 1QFY23 and also driven by higher Foreign exchange and derivative income. Excluding treasury income, 'other income' rose 12.7% YoY.
- Opex was high at 34% YoY and reflected continued investment in business and rising mix of retail assets. The C/I ratio stood at 42.8% (core C/I ratio at 43.6%). PPOp grew 22% YoY (inline); while core PPOP grew ~9.2% YoY vs. 14% YoY in 4QFY23. Provisions declined 10% YoY to INR28.6b (29% below MOSLe).
- Loans grew 16% YoY, led by robust 29% YoY growth in Commercial and Rural loans and 29.3% YoY growth in Agri loans. Retail loans grew 18% YoY, while Wholesale loans grew 11% YoY. Mortgage mix in the merged loan book stood at 35%. Deposits rose ~19% YoY, while CASA grew ~11% YoY. CASA ratio moderated to 42.5%, while the CASA ratio for the merged entity stood at 39%.
- On the asset quality front, GNPA/NNPA ratios increased marginally to 1.17%/ 0.3%, as slippages increased to ~INR58b (1.4% of loans). PCR declined slightly to ~74.9%. The restructured book fell to ~INR43b (27bp of loans) vs. 31bp in 4QFY23. The bank continues to carry contingent provisions and holds floating provisions of INR112b. CAR stood at 18.9% with tier-1 ratio of 16.9% and CET-1 of 16.2%.
- **Subsidiary performance:** Revenue for HDFC Securities fell 15% YoY to INR4.9b, while PAT remained stable at INR1.9b in 1QFY24. HDB Financial reported 5% QoQ growth in loans to INR736b, while revenue grew 5.5% YoY. PAT stood at INR5.7b vs. INR4.4b in 1QFY23. GS-3 assets stood at 2.48% (down 25bp QoQ), while CAR stood at 19.8%.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Highlights from management commentary**

- Retail deposits grew 20.6% YoY and forms 83% of the total deposits for the merged entity as on 1QFY24. The bank added 2.4m new liability relationships during the quarter.
- Credit-to-Deposit Ratio for the bank stands at 84% for the quarter. Merged entity CD ratio stands at 109% as on 1QFY24; however, it is expected to gradually decrease and reach normal levels within the next three to four years.
- The bank reported a 35bp slippage ratio amounting to INR58b for 1QFY24. Excluding agriculture, slippage ratio stands at 26bp, amounting to INR42b.
- LCR for the standalone entity stood at 126% as on 1QFY24 vs. 116% in 4QFY23. Combined basis LCR stands at 120% as on 1QFY24.

**Valuation and view**

HDFCB reported a steady quarter with healthy growth in NII and PAT, driven by lower provisions, even as margins remained stable. Loan growth was driven by sustained momentum in Commercial and Rural Banking and a pick-up in the retail segment. Asset quality ratios remained stable, while the restructured book moderated to 27bp of loans. Healthy PCR and a contingent provisioning buffer should support asset quality. We introduce forecasts for the merged entity and estimate net earnings of INR654b/798b/957b over FY24-26, translating into an RoA of 1.9-2.1%. We thus estimate RoE for the merged entity to revert to pre-merger levels of 17%+ by FY26. **We reiterate our BUY rating with a TP of INR2,070 (premised on 2.8x FY'25E ABV + INR211 for subs).**

**Quarterly performance****(INR b)**

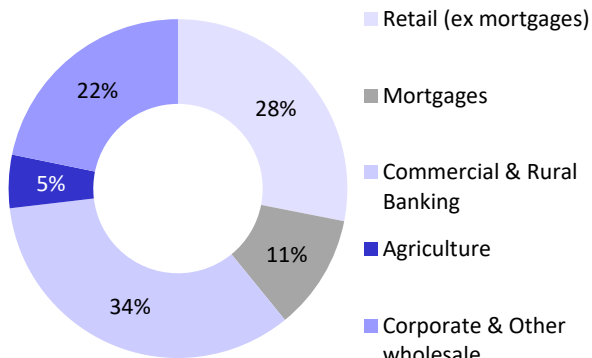
	FY22				FY23				FY24	FY24E	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1QA		1QE	Est
<b>Net Interest Income</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>188.7</b>	<b>194.8</b>	<b>210.2</b>	<b>229.9</b>	<b>233.5</b>	<b>236.0</b>	<b>1,221.5</b>	<b>245.5</b>	<b>-3.9</b>
% Change (Y-o-Y)	8.6	12.1	13.0	10.2	14.5	18.9	24.6	23.7	21.1	40.7		
Other Income	62.9	74.0	81.8	76.4	63.9	76.0	85.0	87.3	92.3	383.9	79.7	15.9
<b>Total Income</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>265.1</b>	<b>258.7</b>	<b>286.2</b>	<b>314.9</b>	<b>320.8</b>	<b>328.3</b>	<b>1,605.4</b>	<b>325.2</b>	<b>1.0</b>
Operating Expenses	81.6	92.8	98.5	101.5	105.0	112.2	124.6	134.6	140.6	579.4	137.6	2.2
<b>Operating Profit</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>163.6</b>	<b>153.7</b>	<b>173.9</b>	<b>190.2</b>	<b>186.2</b>	<b>187.7</b>	<b>1,026.0</b>	<b>187.6</b>	<b>0.1</b>
% Change (Y-o-Y)	18.0	14.4	10.5	5.3	1.5	10.0	13.4	13.8	22.2	45.7		
Provisions	48.3	39.2	29.9	33.1	31.9	32.4	28.1	26.9	28.6	157.7	40.4	-29.2
<b>Profit before Tax</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>130.4</b>	<b>121.8</b>	<b>141.5</b>	<b>162.2</b>	<b>159.4</b>	<b>159.1</b>	<b>868.3</b>	<b>147.2</b>	<b>8.1</b>
Tax	25.8	30.5	34.4	29.9	29.8	35.5	39.6	38.9	39.6	213.6		
<b>Net Profit</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>100.6</b>	<b>92.0</b>	<b>106.1</b>	<b>122.6</b>	<b>120.5</b>	<b>119.5</b>	<b>654.7</b>	<b>110.4</b>	<b>8.3</b>
% Change (Y-o-Y)	16.1	17.6	18.1	22.8	19.0	20.1	18.5	19.8	30.0	48.4		
<b>Operating Parameters</b>												
Deposit	13,458	14,063	14,459	15,592	16,048	16,734	17,332	18,834	19,131	23,839	19,131	0.0
Loan	11,477	11,988	12,609	13,688	13,951	14,799	15,068	16,006	16,157	25,131	16,155	0.0
Deposit Growth (%)	13.2	14.4	13.8	16.8	19.2	19.0	19.9	20.8	19.2	26.6	22.0	-2.8
Loan Growth (%)	14.4	15.5	16.5	20.8	21.6	23.4	19.5	16.9	15.8	57.0	24.5	-8.7
<b>Asset Quality</b>												
Gross NPA (%)	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.1	1.2	1.2	1.2	0.0
Net NPA (%)	0.5	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.3	0.0
PCR (%)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	75.8	75.0	68.7	72.5	2.5

## Quarterly snapshot

	FY22				FY23				FY24	Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	YoY	QoQ
<b>Profit and Loss (INR b)</b>											
<b>Interest Income</b>	<b>304.8</b>	<b>313.5</b>	<b>324.7</b>	<b>334.5</b>	<b>351.7</b>	<b>385.9</b>	<b>427.1</b>	<b>451.2</b>	<b>485.9</b>	<b>38</b>	<b>8</b>
Loans	235.9	241.1	249.0	259.1	274.0	304.1	336.4	356.4	380.1	39	7
Investment	64.9	64.5	65.3	65.8	71.9	77.0	80.4	83.8	89.1	24	6
Others	4.0	7.9	10.5	9.6	5.8	4.8	10.3	11.0	16.7	189	52
<b>Interest Expenses</b>	<b>134.7</b>	<b>136.7</b>	<b>140.2</b>	<b>145.8</b>	<b>156.9</b>	<b>175.7</b>	<b>197.2</b>	<b>217.7</b>	<b>249.9</b>	<b>59</b>	<b>15</b>
<b>Net Interest Income</b>	<b>170.1</b>	<b>176.8</b>	<b>184.4</b>	<b>188.7</b>	<b>194.8</b>	<b>210.2</b>	<b>229.9</b>	<b>233.5</b>	<b>236.0</b>	<b>21</b>	<b>1</b>
<b>Other Income</b>	<b>62.9</b>	<b>74.0</b>	<b>81.8</b>	<b>76.4</b>	<b>63.9</b>	<b>76.0</b>	<b>85.0</b>	<b>87.3</b>	<b>92.3</b>	<b>44</b>	<b>6</b>
<b>Total Income</b>	<b>233.0</b>	<b>250.9</b>	<b>266.3</b>	<b>265.1</b>	<b>258.7</b>	<b>286.2</b>	<b>314.9</b>	<b>320.8</b>	<b>328.3</b>	<b>27</b>	<b>2</b>
<b>Operating Expenses</b>	<b>81.6</b>	<b>92.8</b>	<b>98.5</b>	<b>101.5</b>	<b>105.0</b>	<b>112.2</b>	<b>124.6</b>	<b>134.6</b>	<b>140.6</b>	<b>34</b>	<b>4</b>
Employee	27.7	29.7	31.5	31.4	35.0	35.2	41.3	43.6	47.8	37	10
Others	53.9	63.1	67.0	70.1	70.0	77.0	83.4	91.0	92.7	32	2
<b>Operating Profits</b>	<b>151.4</b>	<b>158.1</b>	<b>167.8</b>	<b>163.6</b>	<b>153.7</b>	<b>173.9</b>	<b>190.2</b>	<b>186.2</b>	<b>187.7</b>	<b>22</b>	<b>1</b>
<b>Core Operating Profits</b>	<b>145.4</b>	<b>151.3</b>	<b>157.3</b>	<b>163.1</b>	<b>166.8</b>	<b>176.5</b>	<b>187.6</b>	<b>186.6</b>	<b>182.2</b>	<b>9</b>	<b>-2</b>
Provisions	48.3	39.2	29.9	33.1	31.9	32.4	28.1	26.9	28.6	-10	7
<b>PBT</b>	<b>103.1</b>	<b>118.8</b>	<b>137.8</b>	<b>130.4</b>	<b>121.8</b>	<b>141.5</b>	<b>162.2</b>	<b>159.4</b>	<b>159.1</b>	<b>31</b>	<b>0</b>
Taxes	25.8	30.5	34.4	29.9	29.8	35.5	39.6	38.9	39.6	33	2
<b>PAT</b>	<b>77.3</b>	<b>88.3</b>	<b>103.4</b>	<b>100.6</b>	<b>92.0</b>	<b>106.1</b>	<b>122.6</b>	<b>120.5</b>	<b>119.5</b>	<b>30</b>	<b>-1</b>
<b>Balance Sheet (INR b)</b>											
Deposits	13,458	14,063	14,459	15,592	16,048	16,734	17,332	18,834	19,131	19	2
Loans	11,477	11,988	12,609	13,688	13,951	14,799	15,068	16,006	16,157	16	1
<b>Asset Quality (INR b)</b>											
GNPA	171.0	163.5	160.1	161.4	180.3	183.0	187.6	180.2	190.6	6	6
NNPA	54.9	47.6	46.8	44.1	48.9	48.8	50.2	43.7	47.8	-2	9
<b>Ratios</b>											
	FY22				FY23				FY24	Change (bp)	
<b>Asset Quality Ratios (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.1	1.2	-11	5
NNPA	0.5	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.3	-5	3
PCR (Calc.)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	75.8	74.9	205	-81
Slippage	2.5	1.8	1.6	1.3	2.1	1.6	1.9	1.3	1.6	-50	28
<b>Business Ratios (%)</b>											
Fees to Total Income	19.3	23.4	23.2	25.6	24.9	24.1	22.8	24.2	22.4	-245	-174
Cost to Core Income	36.0	38.0	38.5	38.4	38.6	38.9	39.9	41.9	43.6	491	164
Tax Rate	25.0	25.7	25.0	22.9	24.5	25.1	24.4	24.4	24.9	39	49
CASA (Reported)	45.5	46.8	47.1	48.2	45.8	45.4	44.0	44.4	42.5	-330	-190
Loan/Deposit	85.3	85.2	87.2	87.8	86.9	88.4	86.9	85.0	84.5	-248	-53
<b>Profitability Ratios (%)</b>											
Yield on loans	8.8	8.6	8.5	8.3	8.6	9.1	9.7	9.6	10.1	148	50
Yield On Investments	6.4	6.2	6.2	5.9	6.2	6.6	6.8	6.9	6.7	54	-18
Yield on funds	8.2	8.2	8.2	7.9	8.1	8.5	9.2	9.2	9.5	145	39
Cost of funds	0.0	0.0	0.0	0.0	3.1	0.0	0.0	3.7	4.0	90	30
Spreads	8.2	8.2	8.2	7.9	5.0	8.5	9.2	5.5	5.5	55	9
Margins	4.1	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	10	0
RoA	1.8	2.0	2.2	2.1	1.8	2.0	2.2	2.1	2.1	26	-2
RoE	15.8	17.5	19.5	18.1	15.9	17.9	19.7	18.5	17.3	140	-122
<b>Other Details</b>											
Branches	5,653	5,686	5,779	6,342	6,378	6,499	7,183	7,821	7,860	1,482	39
ATMs	16,291	16,642	17,238	18,310	18,620	18,868	19,007	19,727	20,352	1,732	625
Employees	1,23,473	1,29,341	1,34,412	1,41,579	1,52,511	1,61,027	1,66,890	1,73,222	1,81,725	29,214	8,503

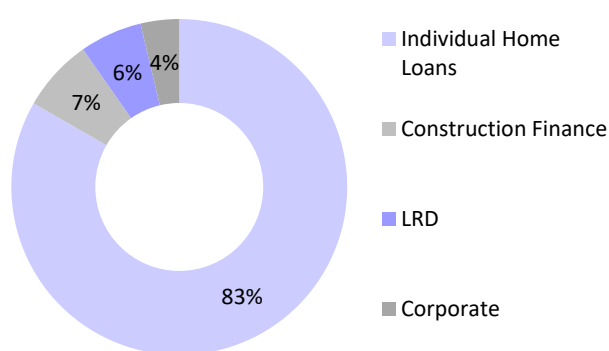
## Key snapshot of merged entity

**Exhibit 1: Loan Mix – HDFC Bank as on FY23**



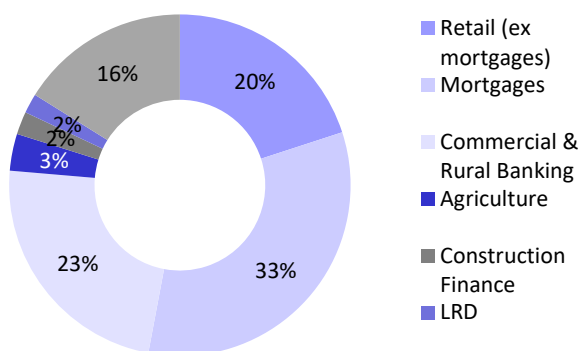
Source: MOFSL, Company

**Exhibit 2: Loan Mix – HDFC Ltd as on FY23**



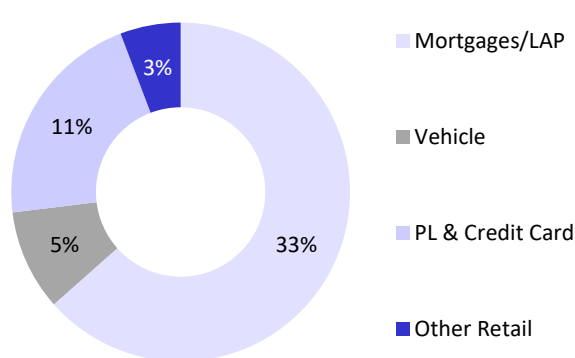
Source: MOFSL, Company

**Exhibit 3: Pro-forma loan mix of the merged entity**



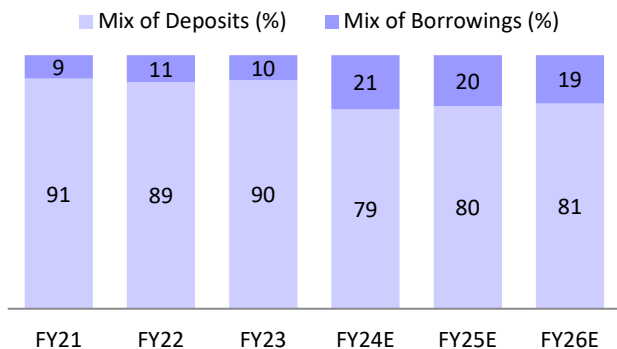
Source: MOFSL, Company

**Exhibit 4: Pro-forma retail loan mix of the merged entity**



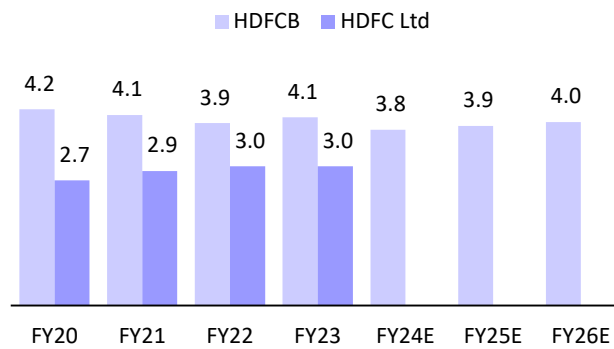
Source: MOFSL, Company

**Exhibit 5: Mix of deposits and borrowings in total funding**



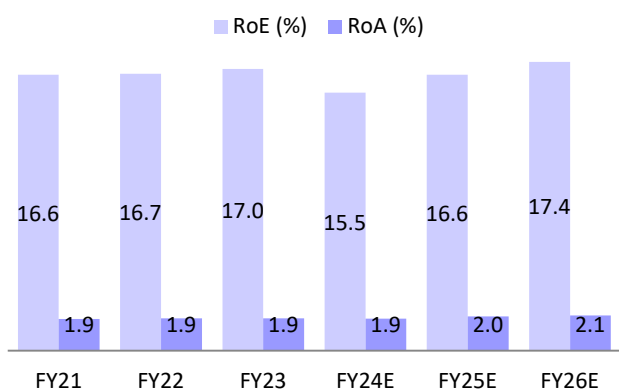
Source: MOFSL, Company

**Exhibit 6: NIM for merged entity to decline to 3.8% in FY24**



Source: MOFSL, Company

Exhibit 7: ROA/ROE to increase to 2.1%/17.4% by FY26



Source: MOFSL, Company

Exhibit 8: HDFC Bank SOTP Valuation

	Total Value INRb	Value Per Share INR	% of Total Value
<b>HDFC Bank</b>	<b>13,989.5</b>	<b>1,859</b>	<b>89.8</b>
HDB Financial Ser	534.4	71	3.4
HDFC Securities	203.4	27	1.3
HDFC Life Insurance	766.4	102	4.9
HDFC Ergo General Insurance	127.5	17	0.8
HDFC AMC	244.0	32	1.6
HDFC Credalia	86.8	12	0.6
Bandhan Bank	20.7	3	0.1
<b>Total Value of Subs</b>	<b>1,983.2</b>	<b>264</b>	<b>12.7</b>
Less: 20% holding Disc	396.6	53	2.5
<b>Value of Subs (Post Holding Disc)</b>	<b>1,586.6</b>	<b>211</b>	<b>10.2</b>
<b>Target Price</b>	<b>15,576.1</b>	<b>2,070</b>	

Source: MOFSL, Company

Exhibit 9: Pro-forma merged financials for HDFC Bank and HDFC Ltd; FY24E RoE to moderate ~150bp; margins to moderate by 30bp

FY23 (INR b)	HDFCB	HDFC Ltd	FY23 Merged	FY24E	FY25E	FY26E
<b>Profit &amp; Loss</b>						
Net Interest Income	868	192	1,061	1,221	1,439	1,708
Non-Interest Income	312	50	362	384	453	530
<b>Total Income</b>	<b>1,181</b>	<b>242</b>	<b>1,423</b>	<b>1,605</b>	<b>1,892</b>	<b>2,238</b>
Operating Expenses	477	24	501	579	674	789
<b>Pre Provision Profits</b>	<b>704</b>	<b>218</b>	<b>922</b>	<b>1,026</b>	<b>1,218</b>	<b>1,449</b>
Provisions	119	18	137	158	159	178
<b>PBT</b>	<b>585</b>	<b>200</b>	<b>785</b>	<b>868</b>	<b>1,059</b>	<b>1,270</b>
Tax	144	38	182	212	260	313
<b>PAT</b>	<b>441</b>	<b>162</b>	<b>603</b>	<b>655</b>	<b>798</b>	<b>958</b>
<b>Balance Sheet</b>						
Net-worth	2,802	1,298	4,100	4,494	5,127	5,904
Deposits	18,834	1,521	20,355	23,839	28,130	33,025
Borrowings	2,068	4,161	6,229	6,485	7,101	7,777
CASA Deposits	8,360	-	8,360	9,178	11,224	40,802
Loans	16,006	6,084	22,089	25,131	29,302	13,705
<b>Total Assets</b>	<b>24,661</b>	<b>7,268</b>	<b>31,929</b>	<b>36,198</b>	<b>41,930</b>	<b>48,499</b>
<b>Asset Quality</b>						
GNPA	180	90	270	297	319	364
NNPA	44	42	86	93	103	127
GNPA ratio	1.1	1.4	1.2	1.2	1.1	1.1
NNPA ratio	0.3	0.7	0.4	0.4	0.4	0.4
PCR	75.8	53.2	68.3	68.7	67.6	65.1
<b>Key Ratios</b>						
NIM	4.1	3.6	3.7	3.8	3.9	4.0
CASA Ratio	44.4	-	41.1	38.5	39.9	41.5
Cost/Total Income	40.4	10.0	35.2	36.1	35.6	35.3
RoE	17.0	13.2	14.7	15.5	16.6	17.4
RoA	1.9	2.3	1.9	1.9	2.0	2.1
<b>Others</b>						
Branches	7,821	523	8,344			
Employees	173,222	4,017	177,239			

Source: MOSL, Company



### Highlights from management commentary

- The merger between HDFC Bank and HDFC Ltd. became effective on 1 July 2023. This merger aims to enhance the opportunity for upselling a range of HDFC Bank products to existing Home Loan customers of HDFC Ltd.
- Economic activity is strong in 1Q with healthy GST collections and continuous growth in remittances, retail, and consumer spends.
- The bank has seen 14% growth in RTGS/ NEFT transactions, while 44% growth in UPI transactions in 1QFY24.
- CRB distribution has reached 0.19m villages as on 1QFY24 and the target is to reach 0.20m villages in the near term.
- Payzapp reported 13m transactions during the quarter.
- Express car loan volumes contributes 30% of the total car loans acquired during the quarter.

### P&L and Balance sheet

- The bank has added 39 branches during the quarter, taking the tally to 7,860 branches as on 1QFY24.
- In the medium-to long-term distribution, reach is key, and hence, C/I has grown by 80bp to 42.8% in 1QFY24.
- Mortgage loan of HDFC Ltd will be moved to EBLR-linked Repo-based loans.
- 1.5m cards were issued by the bank in 1QFY24, taking the tally to 18.4m total cards. The bank has seen a 30% YoY increase in card spends during the quarter.
- Retail deposits grew 20.6% YoY and forms 83% of total deposits for the merged entity as on 1QFY24. The bank added 2.4m new liability relationships during the quarter.
- TD penetration has grown by 50bp to 14.5% among the bank's customers as on 1QFY24.
- 93% of the fees and commission is from retail customers.
- Credit-to-Deposit Ratio for the bank stands at 84% for the quarter. Merged entity CD ratio stands at 109% as on 1QFY24; however, it is expected to gradually decrease and reach normal levels within the next three to four years.
- CRB book continues healthy momentum at 29% YoY. Personal loans grew 20% YoY to INR1.8t.
- The bank had several opportunities in the wholesale book, but does not want to negotiate on pricing, and hence, has reported a QoQ decline in this book.
- Merged entity loan book grew 19% YoY to INR22.45t, while the deposits grew 16% YoY to INR20.65t.
- LCR for the standalone entity stood at 126% as on 1QFY24 vs. 116% in 4QFY23. Combined basis LCR stands at 120% as on 1QFY24.
- The bank is aiming at an ROA of 1.9-2.1% for the merged entity.
- The bank is estimating a 17-18% credit growth going forward.
- The first quarter is typically a slow quarter. Mortgages post-merger are 20% more than what was seen before.

### Asset Quality

- GNPA/NNPA ratio increased 5bp/3bp QoQ to 1.17%/0.30% as on 1QFY24.
- PCR declined 81bp QoQ to 74.9% as on 1QFY24.
- The bank reported a 35bp slippage ratio, amounting to INR58b for 1QFY24. Excluding agriculture, slippage ratio stood at 26bp, amounting to INR42b.

- Restructuring assets forms 27bp of the net advances, amounting to INR42.7b as on 1QFY24.
- Recoveries formed 19bp of gross advances, whereas write off stands at 14bp, amounting to INR21b as on 1QFY24.
- Contingent and floating provision amounts to INR112b, while general provisions amount to INR72b as on 1QFY24.
- The bank has reported a credit cost of 51bp in 1QFY24 vs. 91bp in 4QFY23. Decline in credit cost can keep up with the higher investment in subsidiaries and technology.

### Subsidiaries performance

#### HDB Financials

- HDB loan book stood at INR736b in 1QFY24 vs. INR618b in 1QFY23.
- 7.3m customers were added during the quarter and the total number of branch count stands at 1,581 branches as on 1QFY24.
- PCR on stage 3 book reported stands at 66%.
- HDB reported an ROA of 3.2% and an ROE of 19.4% as on 1QFY24.
- HDB Financials is well capitalized with CAR of 19.8%.

#### HDFC Securities

- HDFC Securities added 0.6m clients in the last 12 months.
- HSL reported revenue of INR5b and a PAT of INR1.9b in 1QFY24.
- HSL has 207 branches across 147 cities in the country.

### Loan growth at 16% YoY; momentum in Retail book continues

- Loan book grew 15.8% YoY (up 1% QoQ) to ~INR16.2t. Deposits rose 19% YoY (up 1.6% QoQ) to ~INR19.1t. The CD ratio moderated to 84.5% vs. 85% QoQ.
- As per its internal classification, Retail loans grew 17.9% YoY and 3.7% QoQ; Commercial and Rural Banking rose 29% YoY and 2.9% QoQ; and Wholesale advances increased 11.2% YoY (down 1.2% QoQ).
- The share of Retail loans increased to 40.4%.
- Home loans/LAP grew 6.3%/2.7% QoQ. Personal loans/Credit Card book rose 2.9%/5.0% and Gold loans grew 7.8% QoQ.
- Auto loans grew 17% YoY (up 3.7% QoQ). 2W loans grew 12.7% YoY (up 4.4% QoQ).

#### Exhibit 10: Share of Retail loans improved to 40.4% in 1QFY24

INR b	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	As a percentage of total
Auto loans	1,040.0	1,174.3	1,217.3	17.0	3.7	7.5
Two-Wheeler loans	92.0	99.3	103.7	12.7	4.4	0.6
Personal loans	1,479.3	1,716.8	1,767.3	19.5	2.9	10.8
Payment products	801.4	861.0	904.4	12.8	5.0	5.5
Home loans	882.5	1,020.7	1,084.7	22.9	6.3	6.7
Gold loans	88.1	108.4	116.9	32.7	7.8	0.7
LAP	651.2	767.7	788.7	21.1	2.7	4.8
Other Retail	544.4	597.5	595.0	9.3	(0.4)	3.7
<b>Retail total</b>	<b>5,578.8</b>	<b>6,345.8</b>	<b>6,578.0</b>	<b>17.9</b>	<b>3.7</b>	<b>40.4</b>
Commercial and Rural Banking	4,364.9	5,474.3	5,631.9	29.0	2.9	34.6
Agriculture	615.8	817.2	796.4	29.3	(2.5)	4.9
Corporate and other wholesale	3,639.4	4,097.1	4,046.4	11.2	(1.2)	24.8
<b>Total loans</b>	<b>14,081.8</b>	<b>16,142.3</b>	<b>16,299.5</b>	<b>17.0</b>	<b>3.7</b>	<b>100.0</b>

CASA/term deposits grew  
~11%/~26% YoY

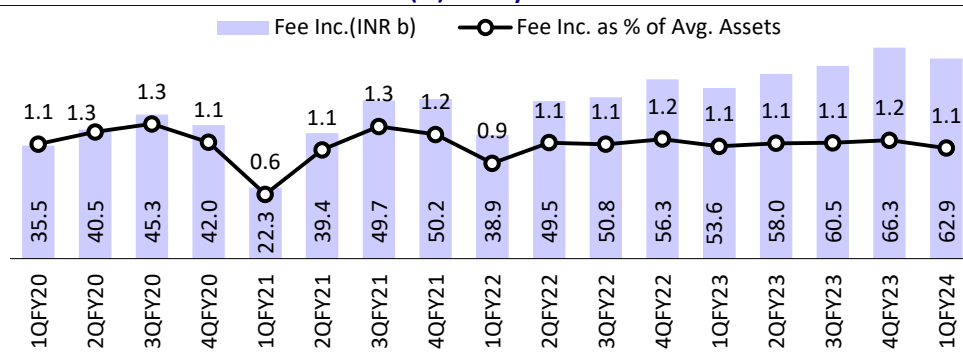
**NIM stable QoQ at 4.1%, CASA ratio moderates to 42.5%**

- Reported NIM stood stable QoQ at 4.1%.
- CASA deposits grew 11% YoY (down 2.7% QoQ); CA/SA deposits grew 14.4%/9.1% YoY (down 7.7%/0.3% QoQ).
- Term deposits grew 26.4% YoY and 5.0% QoQ. The Retail deposit mix stands at 83%.

**Healthy growth in ‘other income’, fee income-to-average assets ratio at 1.1%**

- Core fee income grew 17.3% YoY (down 5.1% QoQ) to INR62.9b. The fee income-to-average assets ratio moderated to 1.1% in 1QFY24 vs. 1.2% in 4QFY23.
- Total ‘other income’ grew 44.5% YoY (up 5.7% QoQ), as the bank reported a treasury gain of INR5.5b in 1QFY24 vs. a treasury loss of INR13.1b in 1QFY23. Excluding treasury income, ‘other income’ rose 12.7% YoY.
- Overall Opex grew 34% YoY and 4.4% QoQ. The C/I ratio grew 86bp QoQ to 42.8%.

**Exhibit 11: Fee income-to-assets ratio (%) steady at 1.1%**



Source: MOFSL, Company

PCR moderated to ~74.9%  
in 1QFY24

**Asset quality ratios remained stable; contingent provisions provide comfort**

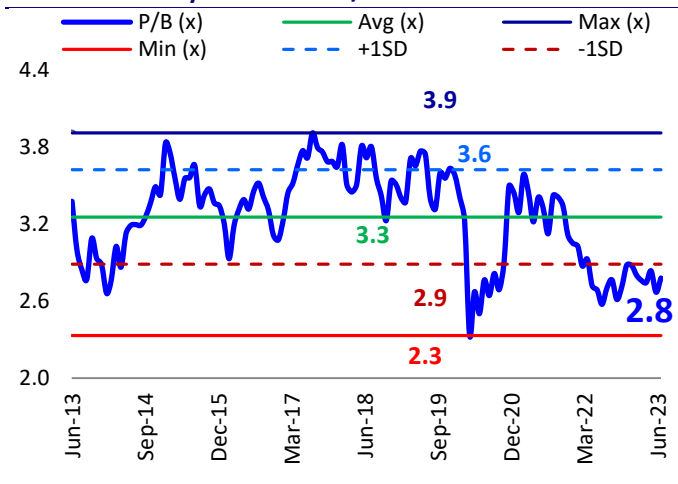
- On the asset quality front, GNPA/NNPA ratios increased marginally to 1.17%/0.3%, as slippages increased to ~INR58b (1.4% of loans). PCR declined slightly to ~74.9%. The restructured book fell to ~INR43b (27bp of loans) vs. 31bp in 4QFY23.
- The bank continues to carry contingent provisions and holds floating provisions of INR112b.
- CAR stood at 18.9% with tier-1 ratio of 16.9% and CET-1 of 16.2%.



**Valuation and view**

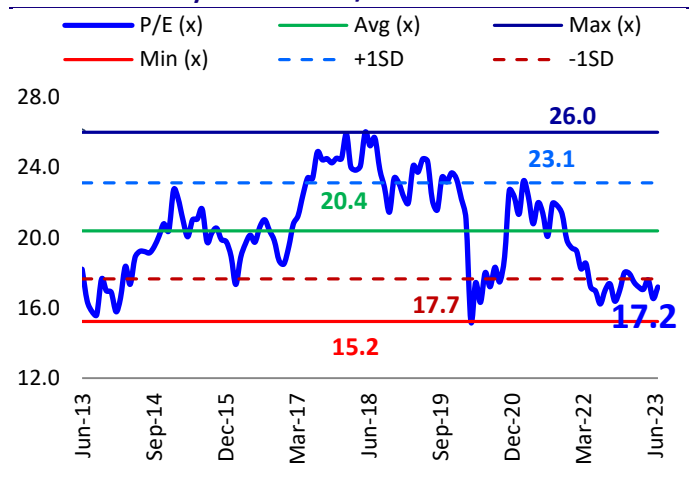
- HDFCB delivered a healthy quarter supported by lower provisions and stable margins. Loan growth was led by strong traction in Commercial and Rural Banking and sequential pick-up in retail. We expect loan growth to stay healthy and estimate a 17% loan CAGR over FY24-26. Deposit growth stood modest at 1.6% QoQ.
- We expect the momentum in the bank’s fee income to stay healthy going forward. Strong cost control, led by further digitalization, is likely to drive an overall improvement in return ratios.
- On the asset quality front, GNPA/NNPA ratios increased marginally to 1.17%/0.3%, as slippages increased to ~INR58b (1.4% of loans). PCR declined slightly to ~74.9%. The restructured book fell to ~INR43b (27bp of loans) vs. 31bp in 4QFY23. The bank continues to carry contingent provisions and holds floating provisions of INR112b. CAR stood at 18.9% with tier-1 ratio of 16.9% and CET-1 of 16.2%.
- **Buy with a TP of INR2,070:** HDFCB reported a steady quarter with healthy growth in NII and PAT, driven by lower provisions, even as margins remained stable. Loan growth was driven by sustained momentum in Commercial and Rural Banking and a pick-up in the retail segment. Asset quality ratios remained stable, while the restructured book moderated to 27bp of loans. Healthy PCR and a contingent provisioning buffer should support asset quality. We introduce forecasts for the merged entity and estimate net earnings of INR654b/798b/957b over FY24-26, translating into RoA of 1.9-2.1%. We thus estimate RoE for the merged entity to revert to pre-merger levels of 17%+ by FY26. **We reiterate our BUY rating with a TP of INR2,070 (premised on 2.8x FY’25E ABV + INR211 for subs).**

**Exhibit 12: One-year forward P/B ratio**



Source: MOFSL, Company

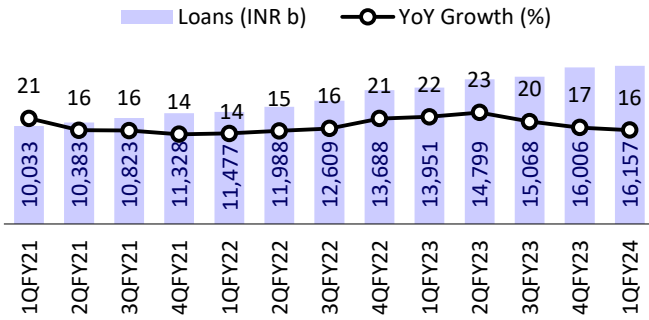
**Exhibit 13: One-year forward P/E ratio**



Source: MOFSL, Company

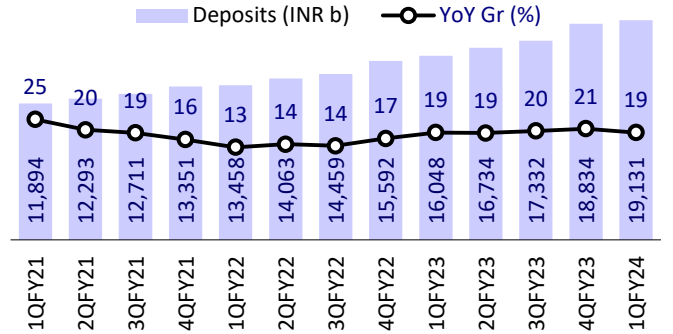
## Story in charts

**Exhibit 14: Loan book grew ~16% YoY (flat QoQ) in 1QFY24**



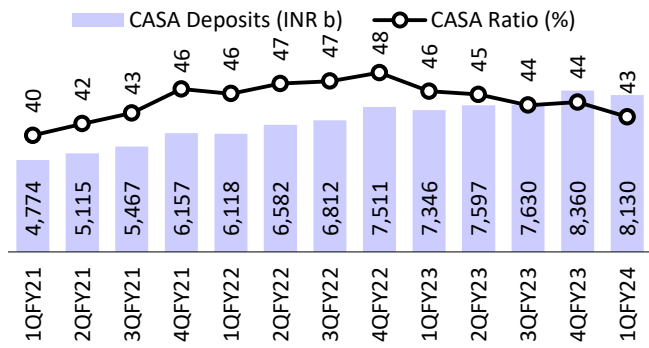
Source: MOFSL, Company

**Exhibit 15: Deposits grew 19% YoY and 2% QoQ in 1QFY24**



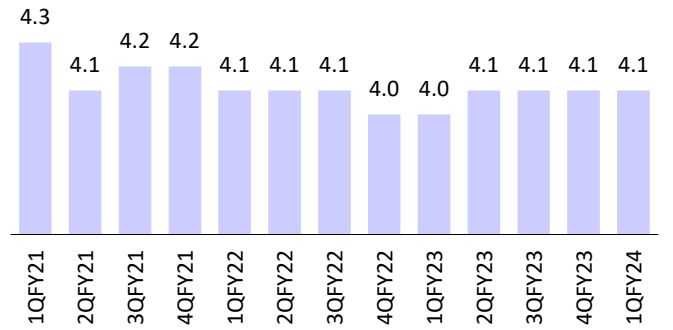
Source: MOFSL, Company

**Exhibit 16: CASA ratio moderated 190bp QoQ to 42.5%**



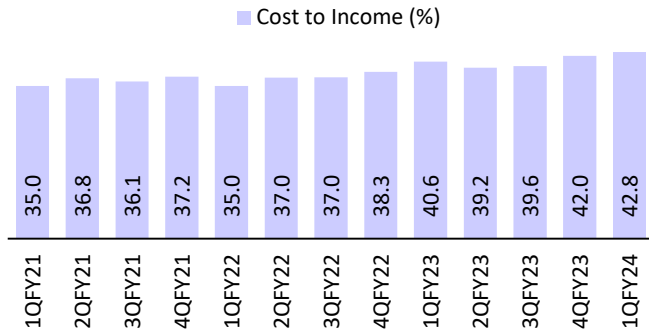
Source: MOFSL, Company

**Exhibit 17: NIM stood stable QoQ at 4.1% in 1QFY24**



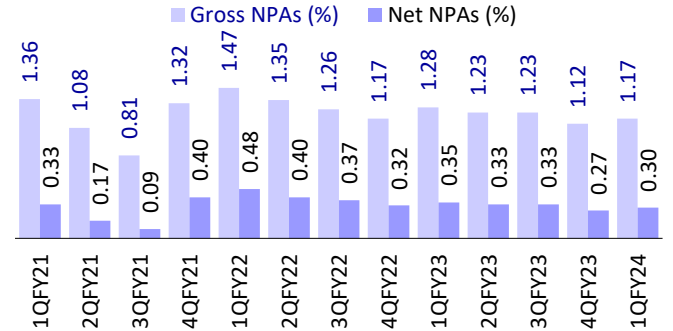
Source: MOFSL, Company

**Exhibit 18: C/I ratio increased to 42.8% in 1QFY24**



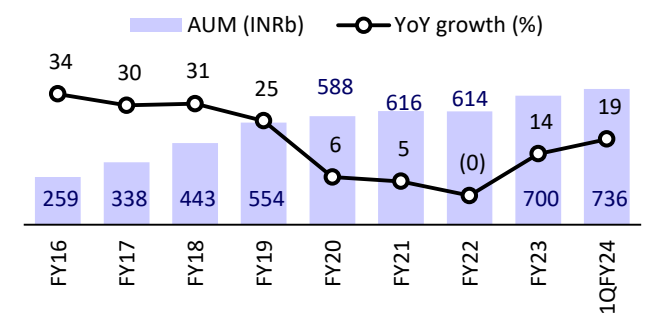
Source: MOFSL, Company

**Exhibit 19: GNPA/NNPA deteriorated marginally to 1.17%/0.30% as on 1QFY24**



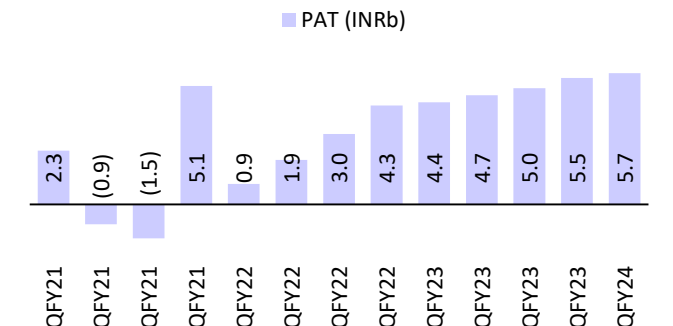
Source: MOFSL, Company

**Exhibit 20: AUM for HDB Financial grew 19% YoY in 1QFY24**



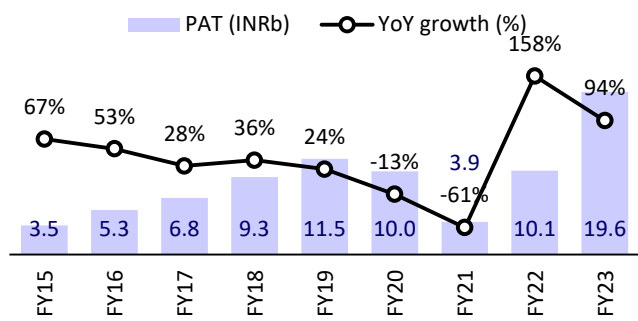
Source: MOFSL, Company

**Exhibit 21: HDB Financial posted PAT of INR5.7b in 1QFY24**

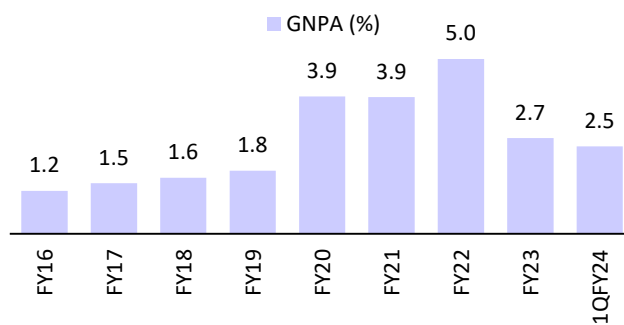


Source: MOFSL, Company

**Exhibit 22: PAT for HDB Financial as on FY23 was at INR19.6b** **Exhibit 23: GNPA ratio improved 25bp QoQ to 2.5% in 1QFY24**

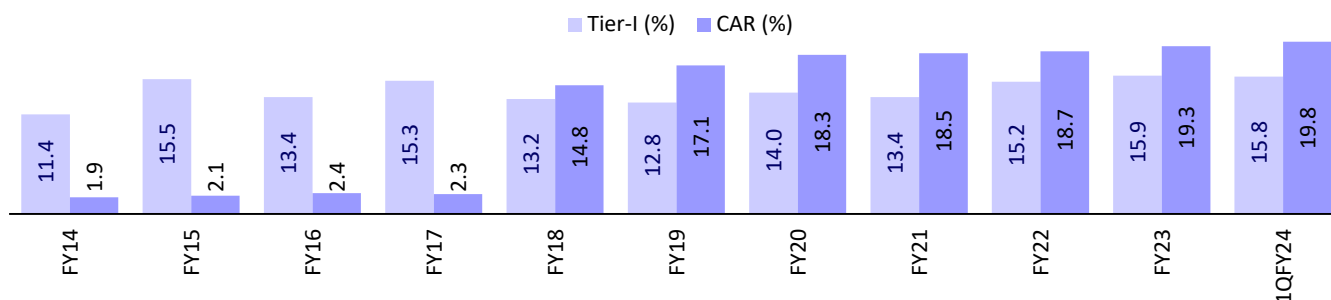


Source: MOFSL, Company



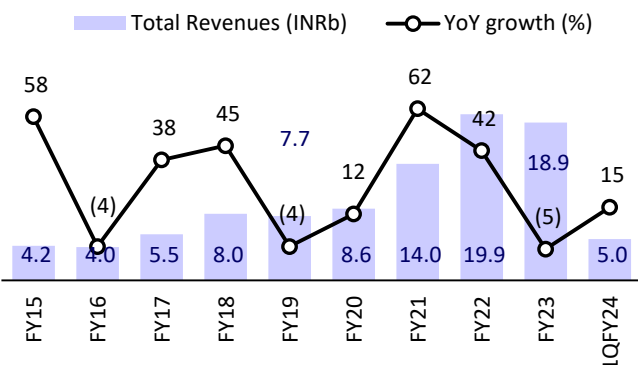
Source: MOFSL, Company

**Exhibit 24: Strong capitalization levels for HDB Financial, with a total CAR of 19.8% as on 1QFY24**

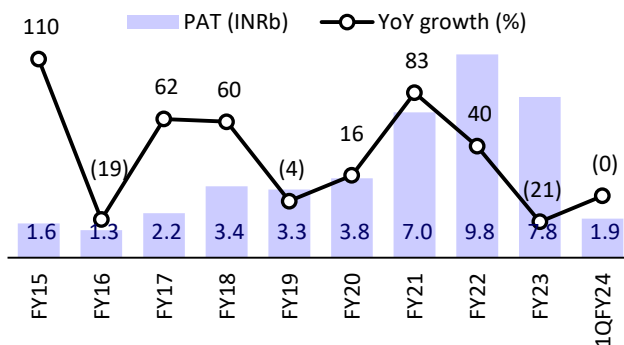


Source: MOFSL, Company

**Exhibit 25: Total income from HDFC Securities grew 15% YoY** **Exhibit 26: ...with PAT flat YoY to INR1.9b in 1QFY24**



Source: MOFSL, Company



Source: MOFSL, Company

**Exhibit 27: HDFC Bank SOTP Valuation**

	Total Value INRb	Value Per Share INR	% of Total Value	Rationale
<b>HDFC Bank</b>	<b>13,989.5</b>	<b>1,859</b>	<b>89.8</b>	<b>2.8x FY25E ABV</b>
HDB Financial Ser	534.4	71	3.4	3.5x FY25E Net worth
HDFC Securities	203.4	27	1.3	18x FY25E PAT
HDFC Life Insurance	766.4	102	4.9	2.8x FY25E EV
HDFC Ergo General Insurance	127.5	17	0.8	25x FY25E PAT
HDFC AMC	244.0	32	1.6	26x FY25E PAT
HDFC Credalia	86.8	12	0.6	3.5x FY25E BV
Bandhan Bank	20.7	3	0.1	1.6x FY25E BV
<b>Total Value of Subs</b>	<b>1,983.2</b>	<b>264</b>	<b>12.7</b>	
Less: 20% holding Disc	396.6	53	2.5	
<b>Value of Subs (Post Holding Disc)</b>	<b>1,586.6</b>	<b>211</b>	<b>10.2</b>	
<b>Target Price</b>	<b>15,576.1</b>	<b>2,070</b>		

Source: MOFSL, Company

**Exhibit 28: DuPont Analysis – Return ratios to steadily improve after RoE takes a dip in FY24**

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	8.57	8.27	7.38	6.70	7.13	7.60	7.76	7.73
Interest Expense	4.40	4.23	3.42	2.92	3.30	4.02	4.08	3.96
<b>Net Interest Income</b>	<b>4.18</b>	<b>4.05</b>	<b>3.96</b>	<b>3.77</b>	<b>3.83</b>	<b>3.59</b>	<b>3.68</b>	<b>3.78</b>
Core Fee Income	1.34	1.38	1.15	1.22	1.06	0.87	0.89	0.90
Trading and others	0.19	0.30	0.39	0.33	0.31	0.26	0.27	0.27
<b>Non-Interest income</b>	<b>1.53</b>	<b>1.68</b>	<b>1.54</b>	<b>1.55</b>	<b>1.38</b>	<b>1.13</b>	<b>1.16</b>	<b>1.17</b>
<b>Total Income</b>	<b>5.71</b>	<b>5.73</b>	<b>5.50</b>	<b>5.32</b>	<b>5.21</b>	<b>4.71</b>	<b>4.84</b>	<b>4.95</b>
<b>Operating Expenses</b>	<b>2.26</b>	<b>2.21</b>	<b>2.00</b>	<b>1.96</b>	<b>2.10</b>	<b>1.70</b>	<b>1.73</b>	<b>1.75</b>
Employee cost	0.67	0.69	0.63	0.63	0.68	0.54	0.56	0.57
Others	1.59	1.53	1.36	1.33	1.42	1.16	1.17	1.18
<b>Operating Profits</b>	<b>3.44</b>	<b>3.51</b>	<b>3.50</b>	<b>3.36</b>	<b>3.11</b>	<b>3.01</b>	<b>3.12</b>	<b>3.20</b>
<b>Core operating Profits</b>	<b>3.26</b>	<b>3.22</b>	<b>3.11</b>	<b>3.03</b>	<b>2.79</b>	<b>2.76</b>	<b>2.85</b>	<b>2.94</b>
<b>Provisions</b>	<b>0.65</b>	<b>0.88</b>	<b>0.96</b>	<b>0.79</b>	<b>0.53</b>	<b>0.46</b>	<b>0.41</b>	<b>0.39</b>
<b>PBT</b>	<b>2.79</b>	<b>2.64</b>	<b>2.54</b>	<b>2.57</b>	<b>2.58</b>	<b>2.55</b>	<b>2.71</b>	<b>2.81</b>
Tax	0.96	0.75	0.64	0.63	0.63	0.63	0.67	0.69
<b>RoA</b>	<b>1.83</b>	<b>1.89</b>	<b>1.90</b>	<b>1.94</b>	<b>1.95</b>	<b>1.92</b>	<b>2.04</b>	<b>2.12</b>
Leverage (x)	9.0	8.7	8.7	8.6	8.7	8.1	8.1	8.2
<b>RoE</b>	<b>16.5</b>	<b>16.4</b>	<b>16.6</b>	<b>16.7</b>	<b>17.0</b>	<b>15.5</b>	<b>16.6</b>	<b>17.4</b>

## Financials and valuations

Income Statement								(INR b)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	989.7	1,148.1	1,208.6	1,277.5	1,615.9	2,589.8	3,031.5	3,496.9
Interest Expense	507.3	586.3	559.8	557.4	747.4	1,368.3	1,592.7	1,789.0
<b>Net Interest Income</b>	<b>482.4</b>	<b>561.9</b>	<b>648.8</b>	<b>720.1</b>	<b>868.4</b>	<b>1,221.5</b>	<b>1,438.9</b>	<b>1,707.9</b>
Growth (%)	20.3	16.5	15.5	11.0	20.6	40.7	17.8	18.7
Non-Interest Income	176.3	232.6	252.0	295.1	312.1	383.9	453.1	530.1
<b>Total Income</b>	<b>658.7</b>	<b>794.5</b>	<b>900.8</b>	<b>1,015.2</b>	<b>1,180.6</b>	<b>1,605.4</b>	<b>1,891.9</b>	<b>2,238.0</b>
Growth (%)	19.1	20.6	13.4	12.7	16.3	36.0	17.8	18.3
Operating Expenses	261.2	307.0	327.2	374.4	476.5	579.4	674.3	789.1
<b>Pre Provision Profits</b>	<b>397.5</b>	<b>487.5</b>	<b>573.6</b>	<b>640.8</b>	<b>704.0</b>	<b>1,026.0</b>	<b>1,217.6</b>	<b>1,448.9</b>
Growth (%)	21.8	22.6	17.7	11.7	9.9	45.7	18.7	19.0
<b>Core PPP</b>	<b>380.3</b>	<b>465.9</b>	<b>549.2</b>	<b>601.7</b>	<b>659.2</b>	<b>967.4</b>	<b>1,143.2</b>	<b>1,361.7</b>
Growth (%)	22.3	22.5	17.9	9.6	9.6	46.8	18.2	19.1
Provisions	75.5	121.4	157.0	150.6	119.2	157.7	158.8	178.4
<b>PBT</b>	<b>322.0</b>	<b>366.1</b>	<b>416.6</b>	<b>490.2</b>	<b>584.9</b>	<b>868.3</b>	<b>1,058.9</b>	<b>1,270.5</b>
Tax	111.2	103.5	105.4	120.5	143.8	213.6	260.5	312.5
Tax Rate (%)	34.5	28.3	25.3	24.6	24.6	24.6	24.6	24.6
<b>PAT</b>	<b>210.8</b>	<b>262.6</b>	<b>311.2</b>	<b>369.6</b>	<b>441.1</b>	<b>654.7</b>	<b>798.4</b>	<b>957.9</b>
Growth (%)	20.5	24.6	18.5	18.8	19.3	48.4	21.9	20.0

### Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	5.4	5.5	5.5	5.5	5.6	7.5	7.5	7.5
Reserves & Surplus	1,486.6	1,704.4	2,031.7	2,395.4	2,796.4	4,486.8	5,119.6	5,896.9
<b>Net Worth</b>	<b>1,492.1</b>	<b>1,709.9</b>	<b>2,037.2</b>	<b>2,400.9</b>	<b>2,802.0</b>	<b>4,494.3</b>	<b>5,127.1</b>	<b>5,904.5</b>
<b>Deposits</b>	9,231.4	11,475.0	13,350.6	15,592.2	18,833.9	23,839.3	28,130.4	33,025.1
Growth (%)	17.0	24.3	16.3	16.8	20.8	26.6	18.0	17.4
<b>of which CASA Deposits</b>	3,912.0	4,846.3	6,156.8	7,510.5	8,359.9	9,178.1	11,224.0	13,705.4
Growth (%)	14.0	23.9	27.0	22.0	11.3	9.8	22.3	22.1
Borrowings	1,170.9	1,446.3	1,354.9	1,848.2	2,067.7	6,485.3	7,100.7	7,777.1
Other Liabilities & Prov.	551.1	673.9	726.0	844.1	957.2	1,379.1	1,572.2	1,792.3
<b>Total Liabilities</b>	<b>12,445.4</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>24,660.8</b>	<b>36,198.1</b>	<b>41,930.5</b>	<b>48,499.0</b>
Current Assets	813.5	866.2	1,194.7	1,523.3	1,937.7	2,013.6	2,184.3	2,427.7
<b>Investments</b>	2,931.2	3,918.3	4,437.3	4,555.4	5,170.0	7,336.3	8,583.5	9,913.9
Growth (%)	21.0	33.7	13.2	2.7	13.5	41.9	17.0	15.5
<b>Loans</b>	8,194.0	9,937.0	11,328.4	13,688.2	16,005.9	25,130.6	29,302.3	34,137.2
Growth (%)	24.5	21.3	14.0	20.8	16.9	57.0	16.6	16.5
Fixed Assets	40.3	44.3	49.1	60.8	80.2	140.7	156.5	189.3
Other Assets	466.5	539.3	459.3	857.7	1,467.1	1,576.9	1,703.9	1,830.9
<b>Total Assets</b>	<b>12,445.4</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>24,660.8</b>	<b>36,198.1</b>	<b>41,930.5</b>	<b>48,499.0</b>

### Asset Quality

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA	112.2	126.5	150.9	161.4	180.2	296.7	319.2	364.3
NNPA	32.1	35.4	45.5	44.1	43.7	93.0	103.3	127.2
GNPA Ratio	1.4	1.3	1.3	1.2	1.1	1.2	1.1	1.1
NNPA Ratio	0.4	0.4	0.4	0.3	0.3	0.4	0.4	0.4
Slippage Ratio	1.9	1.9	1.5	2.1	1.7	1.6	1.5	1.4
Credit Cost	0.9	1.3	1.5	1.2	0.8	0.6	0.5	0.5
PCR (Excl. Tech. write off)	71.4	72.0	69.8	72.7	75.8	68.7	67.6	65.1

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Yield &amp; Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>9.6</b>	<b>9.0</b>	<b>8.1</b>	<b>7.4</b>	<b>8.0</b>	<b>8.3</b>	<b>8.5</b>	<b>8.4</b>
Avg. Yield on loans	10.5	10.1	8.9	7.9	8.6	8.9	9.0	8.9
Avg. Yield on Inv.	7.6	6.1	5.6	5.8	6.5	6.8	6.9	6.9
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.2</b>	<b>5.0</b>	<b>4.1</b>	<b>3.5</b>	<b>3.9</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>
Avg. Cost of Deposits	4.8	4.9	4.0	3.4	3.9	4.3	4.5	4.3
<b>Interest Spread</b>	<b>4.4</b>	<b>4.0</b>	<b>4.0</b>	<b>3.9</b>	<b>4.1</b>	<b>3.5</b>	<b>3.6</b>	<b>3.7</b>
<b>Net Interest Margin</b>	<b>4.4</b>	<b>4.2</b>	<b>4.1</b>	<b>3.9</b>	<b>4.1</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>

### Capitalisation Ratios (%)

CAR	17.1	18.3	18.5	18.7	19.3	19.9	19.5	19.0
Tier I	15.8	17.0	17.3	17.7	17.1	18.4	18.1	17.8
Tier II	1.3	1.2	1.2	1.0	2.2	1.5	1.3	1.1

### Business and Efficiency Ratios (%)

Loans/Deposit	88.8	86.6	84.9	87.8	85.0	105.4	104.2	103.4
CASA Ratio	42.4	42.2	46.1	48.2	44.4	38.5	39.9	41.5
Cost/Assets	2.1	2.0	1.9	1.8	1.9	1.6	1.6	1.6
Cost/Total Income	39.7	38.6	36.3	36.9	40.4	36.1	35.6	35.3
Cost/Core Income	40.7	39.7	37.3	38.4	42.0	37.5	37.1	36.7
Int. Expense/Int. Income	51.3	51.1	46.3	43.6	46.3	52.8	52.5	51.2
Fee Income/Total Income	23.5	24.1	20.9	22.9	20.4	18.5	18.4	18.2
Non Int. Inc./Total Income	26.8	29.3	28.0	29.1	26.4	23.9	23.9	23.7
Emp. Cost/Total Expense	29.7	31.0	31.7	32.1	32.6	31.9	32.3	32.6
Investment/Deposit	31.8	34.1	33.2	29.2	27.5	30.8	30.5	30.0

### Valuation

RoE	16.5	16.4	16.6	16.7	17.0	15.5	16.6	17.4
RoA	1.8	1.9	1.9	1.9	1.9	1.9	2.0	2.1
RoRWA	2.4	2.6	2.8	2.8	2.9	2.9	3.1	3.2
Book Value (INR)	274	312	370	433	502	597	681	785
Growth (%)	33.8	13.8	18.5	17.2	16.0	18.9	14.1	15.2
<b>Price-BV (x)</b>	<b>6.1</b>	<b>5.4</b>	<b>4.5</b>	<b>3.9</b>	<b>3.3</b>	<b>2.8</b>	<b>2.5</b>	<b>2.1</b>
Adjusted BV (INR)	263	300	357	420	489	580	662	762
<b>Price-ABV (x)</b>	<b>6.4</b>	<b>5.6</b>	<b>4.7</b>	<b>4.0</b>	<b>3.4</b>	<b>2.9</b>	<b>2.5</b>	<b>2.2</b>
EPS (INR)	39.6	48.0	56.6	66.8	79.3	87.0	106.1	127.3
Growth (%)	16.9	21.2	17.8	18.1	18.6	9.7	21.9	20.0
<b>Price-Earnings (x)</b>	<b>42.4</b>	<b>35.0</b>	<b>29.7</b>	<b>25.1</b>	<b>21.2</b>	<b>19.3</b>	<b>15.8</b>	<b>13.2</b>
Dividend Per Share (INR)	9.0	11.9	6.5	15.5	18.9	20.0	22.0	24.0
<b>Dividend Yield (%)</b>	<b>0.5</b>	<b>0.7</b>	<b>0.4</b>	<b>0.9</b>	<b>1.1</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>

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