

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HDFCB IN
Equity Shares (m)	7538
M.Cap.(INRb)/(USDb)	11597.1 / 139.3
52-Week Range (INR)	1758 / 1427
1, 6, 12 Rel. Per (%)	-6/-20/-9
12M Avg Val (INR M)	23044

#### Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	868	1,137	1,368
OP	704	933	1,150
NP	441	629	764
NIM (%)	4.1	3.5	3.7
EPS (INR)	79.3	83.5	101.5
EPS Gr. (%)	18.6	5.3	21.5
BV/Sh. (INR)	502	579	660
ABV/Sh. (INR)	490	564	643

#### Ratios

RoE (%)	17.0	15.1	16.4
RoA (%)	1.9	1.8	1.9

#### Valuations

P/E(X)	19.3	18.3	15.1
P/BV (X)	3.1	2.6	2.3
P/ABV (X)	2.7	2.3	2.1

#### Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	0.0	20.8	20.9
DII	26.5	22.0	22.6
FII	58.6	45.6	44.7
Others	14.9	11.5	11.8

FII Includes depository receipts

**CMP: INR1,530**      **TP: INR1,950 (+27%)**      **Buy**

## Robust execution; margins to recover gradually

### Business growth impressive

- HDFC Bank (HDFCB) reported a steady first quarter after the merger, with in-line PPop and robust business growth (~5% QoQ). PAT grew 33.7% QoQ to INR159.8b in 2QFY24. Deposit growth was particularly strong as the bank garnered INR1.1tn of deposits in 2QFY24 (85% retail deposits).
- Margins compressed sharply to 3.4%, dragged down by excess liquidity and ICRR impact. However, the bank reported an 8% earnings beat, supported by a lower tax rate. NII came in slightly lower than our estimate, but it was offset by robust other income (buoyed by treasury gains). As a result, revenue stood in line with our estimate.
- GNPA ratio improved over pro forma 1QFY24 estimates, while PCR was broadly stable at 74%. Fresh slippages stood at INR78b or 1.9% of loans.
- HDFCB has made a good beginning, and given a huge pace of capacity building, we believe that there are levers in place to sustain this momentum in business growth. Margins are likely to recover gradually, which, along with improved operating leverage, should improve return ratios.
- We estimate HDFCB to deliver a CAGR of 18%/20% in loans/deposits and a 21% CAGR in earnings over FY24-26, translating into RoA/RoE of 2%/17.4% by FY26E. **We reiterate our BUY rating.**

### Revenue growth in line; ICRR, high liquidity drags margins

- NII came in 2% lower than our estimate, as reported margins declined to 3.4% (est. 3.47%). High liquidity and ICRR impacted NIMs by 25bp and we estimate margins to recover gradually.
- 'Other income' came in higher than our estimates at INR107b, aided by healthy core fees and healthy treasury gain of INR10.4b in 2QFY24.
- Opex was in line at INR154b as the bank continued with aggressive employee addition and made further investment in business, besides a rising mix of retail assets. The C/I ratio stood at 40.4% (core C/I ratio at 41.6%). PPop was in line with our estimate at INR227b.
- Loan growth was robust at 13% YoY/5% QoQ, led by robust growth in retail and continued traction in Commercial and Rural banking. A pick-up was seen in the corporate segment as well. Deposit growth too remained healthy at 18.3% YoY/5.3% QoQ, while the CASA ratio declined marginally to ~38%.
- On the asset quality front, GNPA/NNPA ratios increased marginally to 1.3%/0.4%, on the back of a 22bp impact from higher NPAs related to HDCL's non-retail loans. PCR stood at 74% for the merged entity. The merged entity carries floating and contingent provisions at INR156b or 0.7% of loans. CAR for the bank now stands at 19.5%, with CET1 at 17.3% and Tier 1 at 17.8%.
- **Subsidiary performance:** Revenue for HDFC Securities stood healthy growing by 29% YoY to INR6b, while PAT too grew by 12% YoY to INR2b. HDB Financial reported 23% YoY/5% QoQ growth in loans to INR779b, while PAT stood at INR6b vs. INR4.7b in 2QFY23. GS-3 assets stood at 2.4% (down 10bp QoQ), while CAR stood at 19.4%.

**Highlights from management commentary**

- NIMs are impacted by 25bp due to excess liquidity and impact of incremental CRR. LCR ratio stood at 121% after absorbing ICRR in 2QFY24.
- The bank added 85 branches during the quarter, taking the tally to 7,945 branches as on 2QFY24.
- About 83-85% of deposits are retail. The change in mix toward retail will lead to better margins going forward.
- HDFCB reported a 32bp slippage ratio, amounting to INR78b for 2QFY24.
- Certain non-individual accounts of erstwhile HDFC, which have been restructured and are current, have been classified as NPAs as per extant regulations. These NPAs account for 0.2% in the total GNPA ratio and 1.0% in the wholesale GNPA ratio as of 2QFY24.

**Valuation and view: Good beginning but long way to go**

HDFCB reported a beat on profitability owing to healthy other income and a lower tax rate, partly offset by a miss on NII due to lower NIMs. Loan growth was healthy, driven by growth in retail and continued traction in Commercial and Rural banking. Asset quality ratios took a hit due to a 22bp impact from HDFCL's non-retail portfolio; however, the bank has maintained healthy PCR at 74%. It also holds a 0.7% buffer of floating+contingent provision, which provides comfort. HDFCB has made a good beginning and given a huge pace of capacity building, we believe that there are levers in place to sustain this momentum in business growth. Margins are likely to recover gradually, which, along with improved operating leverage should improve return ratios. We estimate HDFCB to deliver a CAGR of 18%/20% in loans/deposits and a 21% CAGR in earnings over FY24-26, translating into RoA/RoE of 2%/17.4% by FY26E. **We reiterate our BUY rating with an unchanged TP of INR1,950 (2.7x FY25E ABV + INR209 for subs).**

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

	FY23				FY24				FY23	FY24E	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Net Interest Income</b>	194.8	210.2	229.9	233.5	236.0	273.9	299.1	328.3	868.4	1,137.3	280.7	-2.4
% Change (Y-o-Y)	14.5	18.9	24.6	23.7	21.1	30.3	30.1	40.6	20.6	31.0	33.5	
Other Income	63.9	76.0	85.0	87.3	92.3	107.1	109.5	115.6	312.1	424.5	97.9	9.4
<b>Total Income</b>	<b>258.7</b>	<b>286.2</b>	<b>314.9</b>	<b>320.8</b>	<b>328.3</b>	<b>380.9</b>	<b>408.6</b>	<b>443.9</b>	<b>1,180.6</b>	<b>1,561.8</b>	<b>378.6</b>	<b>0.6</b>
Operating Expenses	105.0	112.2	124.6	134.6	140.6	154.0	161.5	173.1	476.5	629.1	150.9	2.0
<b>Operating Profit</b>	<b>153.7</b>	<b>173.9</b>	<b>190.2</b>	<b>186.2</b>	<b>187.7</b>	<b>226.9</b>	<b>247.1</b>	<b>270.9</b>	<b>704.0</b>	<b>932.6</b>	<b>227.7</b>	<b>-0.3</b>
% Change (Y-o-Y)	1.5	10.0	13.4	13.8	22.2	30.5	29.9	45.5	9.9	32.5	30.9	
Provisions	31.9	32.4	28.1	26.9	28.6	29.0	29.5	29.1	119.2	116.2	30.8	-5.7
<b>Profit before Tax</b>	<b>121.8</b>	<b>141.5</b>	<b>162.2</b>	<b>159.4</b>	<b>159.1</b>	<b>197.9</b>	<b>217.6</b>	<b>241.8</b>	<b>584.9</b>	<b>816.4</b>	<b>196.9</b>	<b>0.5</b>
Tax	29.8	35.5	39.6	38.9	39.6	38.1	54.4	55.6	143.8	187.8	49.2	
<b>Net Profit</b>	<b>92.0</b>	<b>106.1</b>	<b>122.6</b>	<b>120.5</b>	<b>119.5</b>	<b>159.8</b>	<b>163.2</b>	<b>186.2</b>	<b>441.1</b>	<b>628.6</b>	<b>147.7</b>	<b>8.2</b>
% Change (Y-o-Y)	19.0	20.1	18.5	19.8	30.0	50.6	33.1	54.5	19.3	42.5	39.2	
<b>Operating Parameters</b>												
Deposit	16,048	16,734	17,332	18,834	19,131	21,729	22,558	24,310	18,834	24,310	21,730	0.0
Loan	13,951	14,799	15,068	16,006	16,157	23,312	23,875	25,051	16,006	25,051	22,909	1.8
Deposit Growth (%)	19.2	19.0	19.9	20.8	19.2	29.8	30.2	29.1	20.8	29.1	29.9	0.0
Loan Growth (%)	21.6	23.4	19.5	16.9	15.8	57.5	58.4	56.5	16.9	56.5	54.8	2.7
<b>Asset Quality</b>												
Gross NPA (%)	1.3	1.2	1.2	1.1	1.2	1.3	1.3	1.3	1.1	1.3	1.4	0.0
Net NPA (%)	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.4	0.0
PCR (%)	72.9	73.3	73.2	75.8	75.0	73.7	73.4	73.4	75.8	73.4	73.7	0.0

E: MOFSL Estimates;

## Quarterly snapshot

	FY22				FY23				FY24		Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	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>677.0</b>	<b>75</b>	<b>39</b>
Loans	235.9	241.1	249.0	259.1	274.0	304.1	336.4	356.4	380.1	542.9	79	43
Investment	64.9	64.5	65.3	65.8	71.9	77.0	80.4	83.8	89.1	116.4	51	31
Others	4.0	7.9	10.5	9.6	5.8	4.8	10.3	11.0	16.7	17.6	271	6
<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>403.1</b>	<b>130</b>	<b>61</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>273.9</b>	<b>30</b>	<b>16</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>107.1</b>	<b>41</b>	<b>16</b>
Trading profits	6.0	6.8	10.5	0.5	-13.1	-2.5	2.6	-0.4	5.5	10.4	-511	89
Exchange Profits	12.0	8.7	9.5	8.0	12.6	9.5	10.7	10.1	13.1	12.2	29	-7
Others (Ex non core)	44.9	58.6	61.9	67.8	64.4	69.0	71.6	77.6	73.7	84.5	22	15
<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>380.9</b>	<b>33</b>	<b>16</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>154.0</b>	<b>37</b>	<b>10</b>
Employee	27.7	29.7	31.5	31.4	35.0	35.2	41.3	43.6	47.8	51.7	47	8
Others	53.9	63.1	67.0	70.1	70.0	77.0	83.4	91.0	92.7	102.3	33	10
<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>226.9</b>	<b>30</b>	<b>21</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>216.5</b>	<b>23</b>	<b>19</b>
Provisions	48.3	39.2	29.9	33.1	31.9	32.4	28.1	26.9	28.6	29.0	-10	2
<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>197.9</b>	<b>40</b>	<b>24</b>
Taxes	25.8	30.5	34.4	29.9	29.8	35.5	39.6	38.9	39.6	38.1	8	-4
<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>159.8</b>	<b>51</b>	<b>34</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	21,729	30	14
Loans	11,477	11,988	12,609	13,688	13,951	14,799	15,068	16,006	16,157	23,312	58	44
<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	315.8	73	66
NNPA	54.9	47.6	46.8	44.1	48.9	48.8	50.2	43.7	47.8	80.7	65	69
<b>Ratios</b>												
	FY22				FY23				FY24		Change (bp)	
<b>Asset Quality Ratios (%)</b>	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	YoY	QoQ
GNPA	1.5	1.4	1.3	1.2	1.3	1.2	1.2	1.1	1.2	1.3	11	17
NNPA	0.5	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.4	2	5
PCR (Calc.)	67.9	70.9	70.8	72.7	72.9	73.3	73.2	75.8	74.9	74.4	112	-51
Slippage	2.5	1.8	1.6	1.3	2.1	1.6	1.9	1.3	1.9	4.1	243	218
<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	22.2	-194	-27
Cost to Core Income	36.0	38.0	38.5	38.4	38.6	38.9	39.9	41.9	43.6	41.6	268	-199
Tax Rate	25.0	25.7	25.0	22.9	24.5	25.1	24.4	24.4	24.9	19.3	-579	-562
CASA (Reported)	45.5	46.8	47.1	48.2	45.8	45.4	44.0	44.4	42.5	37.6	-780	-490
Loan/Deposit	85.3	85.2	87.2	87.8	86.9	88.4	86.9	85.0	84.5	107.3	1,885	2,284
<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	11.4	232	130
Yield On Investments	6.4	6.2	6.2	5.9	6.2	6.6	6.8	6.9	6.7	7.5	91	78
Yield on funds	8.2	8.2	8.2	7.9	8.1	8.5	9.2	9.2	9.5	10.7	218	117
Cost of funds	0.0	0.0	0.0	0.0	3.1	0.0	0.0	3.7	4.0	4.8	480	80
Spreads	8.2	8.2	8.2	7.9	5.0	8.5	9.2	5.5	5.5	5.9	-262	37
Margins	4.1	4.1	4.1	4.0	4.0	4.1	4.1	4.1	4.1	3.4	-70	-70
RoA	1.8	2.0	2.2	2.1	1.8	2.0	2.2	2.1	2.1	2.0	-4	-10
RoE	15.8	17.5	19.5	18.1	15.9	17.9	19.7	18.5	17.3	19.4	145	209
<b>Other Details</b>												
Branches	5,653	5,686	5,779	6,342	6,378	6,499	7,183	7,821	7,860	7,945	1,446	85
ATMs	16,291	16,642	17,238	18,310	18,620	18,868	19,007	19,727	20,352	20,596	1,728	244
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	1,97,899	36,872	#####



## Highlights from management commentary

### Opening remarks

- In the merger quarter, business momentum has continued to gain pace with record logins; disbursements set a new record of INR480b during the quarter.
- Economic activity was strong in 2Q with healthy GST collections and continuous growth in remittances, retail and consumer spends.
- CRB distribution has reached at 0.18m villages as on 2QFY24 and the target is to reach 0.20m villages in the near term.
- The bank has done one-offs to absorb the debt-funded cost for additional liquidity.
- There was one account, which needs to be restructured, but the bank expects the impact of the same on overall gross NPAs would not be significant.
- Construction finance is an important part of mortgage business and the bank expects it to grow steadily going forward, which should boost margins.
- Express car loan volumes contribute to 40% of total car loans acquired during the quarter.

### P&L and balance sheet

- HDFCB added 85 branches during the quarter, taking the tally to 7,945 branches as on 2QFY24.
- C/I moderated 239bp to 40.4% in 2QFY24.
- ~83-85% of deposits were retail. Change in mix toward more on retail will lead to better margins going forward.
- NIMs are impacted by 25bp due to excess liquidity and impact of incremental CRR.
- RoE/RoA stood at 16.2%/2% in 2QFY24 and are expected to improve going forward.
- Funding would not be an issue for the bank due to high liquidity build-up in HDFC Ltd.
- The bank aims for ROA of 1.9%-2.1% by end of FY24.
- 1.7m cards were issued by the bank in 2QFY24, taking the tally to 18.8m total cards. The bank has 4.9m payment acceptance points.
- 65% of other income was fee income. Foreign exchange & derivatives stood at INR12.2b. Net trading gain stood at INR10.4b in 2QFY24.
- Retail current deposits form 72% of total deposits for the merged entity as on 2QFY24.
- LCR ratio stood at 121% after absorbing ICRR in 2QFY24.
- Mortgages loan of HDFC Ltd has been moved to Repo-based loans.
- The non-individual loan book of erstwhile HDFC has been reckoned under wholesale loans.
- CRB book continued to see healthy momentum at 29.5% YoY, while the Corporate and other wholesale book grew 33.8% YoY in 2QFY24.

### Asset quality

- GNPA/NNPA ratios increased by 17bp/5bp QoQ to 1.34%/0.35% as on 2QFY24.
- Recoveries stood at INR45bn and formed 22bp of gross advances, whereas write-offs stood at INR32.5bn and formed 17bp as on 2QFY24.
- The bank reported a 32bp slippage ratio, amounting to INR78b for 2QFY24.

- HDFCB has reported a credit cost of 49bp in 2QFY24 vs. 87bp in 2QFY23. The decline in credit costs can keep up with the higher investment in subsidiaries and technology.
- Contingent and floating provisions amount to INR156b as on 2QFY24.
- Certain non-individual accounts of erstwhile HDFC, which have been restructured and are current, have been classified as NPAs as per extant regulations. These NPAs account for 0.2% in the total GNPA ratio and 1.0% in the wholesale GNPA ratio as of 2QFY24.

### Subs performance

#### HDB Financials

- HDB loan book stood at INR779b, up by 23% YoY and 6% sequentially.
- 13.6m customers were added during the quarter and total branch count stood at 1,602 branches as on 2QFY24.
- PCR on stage 3 book stood at 68%.
- HDB reported ROA of 3.2% and ROE of 19.7% as on 2QFY24.
- HDB is well capitalized with CAR of 19.4%.

#### HDFC Securities

- HDFC Securities serviced 4.7m customers.
- It reported a revenue of INR6b and a PAT of INR2.1b in 2QFY24.
- HSL has 203 branches across 145 cities in the country.

### Loan growth at 13% YoY; momentum in Retail book continues

- The merged entity's loan book grew 13% YoY (+5.5% QoQ) to ~INR23t. Its deposits rose 18.3% YoY (+5.3% QoQ) to ~INR21.7t on pro forma merged yearly and quarterly numbers. Thus, the CD ratio for the merged entity stood at 107.3% in 2QFY24.
- As per its internal classification, Retail loans grew 3.1% QoQ, Commercial and Rural Banking (excluding Agri) rose 9.2% QoQ, Agri grew 13.6% QoQ and Wholesale advances increased by 5.8% QoQ.
- The share of Retail loans increased to 51.4% in 2QFY24.

#### Exhibit 1: Share of Retail loans increased to 51.4% in 2QFY24

INR b	2QFY23	1QFY24*	2QFY24	YoY (%)	QoQ (%)
Auto loans	1087.8	1217.3	1255.1	15.4	3.1
Two-Wheeler loans	95.9	103.6	109.5	14.2	5.7
Personal loans	1548.2	1767.3	1786.9	15.4	1.1
Payment products	819.6	904.3	909.1	10.9	0.5
Home loans	1623.6	6927.6	7170.7	341.6	3.5
Gold loans	94.3	116.9	126.0	33.6	7.8
Other Retail	535.8	594.9	637.6	19.0	7.2
<b>Retail total</b>	<b>5,805.5</b>	<b>11,632.2</b>	<b>11,995.1</b>	<b>106.6</b>	<b>3.1</b>
Commercial and Rural Banking	4744.6	5631.9	6147.3	29.6	9.2
Agriculture	702.8	796.3	904.9	28.8	13.6
Corporate and other wholesale	3967.8	4046.3	4281.1	7.9	5.8
<b>Total loans</b>	<b>15,220.7</b>	<b>22,106.9</b>	<b>23,328.3</b>	<b>53.3</b>	<b>5.5</b>

\*on proforma merged basis

CASA/term deposits grew by ~7.6%/~48% YoY

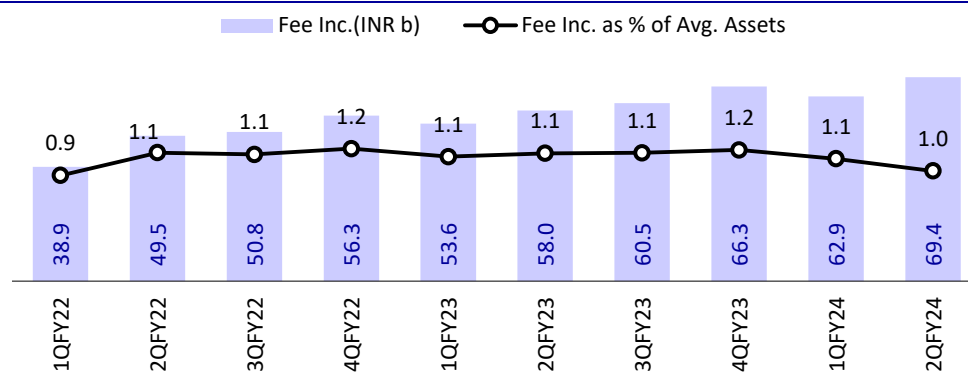
### NIM stood QoQ at 3.4%, CASA ratio moderates to 37.6%

- Reported NIM moderated to 3.4% in 2QFY24.
- CASA deposits grew 7.6% YoY (+0.6% QoQ); CA/SA deposits grew 7.7%/7.6% YoY.
- Term deposits grew by 48.3% YoY and 23.2% QoQ, resulting in the CASA ratio moderating to 37.6%.

### Healthy growth in fee income, fee income-to-average assets ratio at 1.0%

- Core fee income grew 19.5% YoY (+10.3% QoQ) to INR69.3b, aided by healthy loan growth and an improvement in Retail growth. The fee income-to-average assets ratio stood at 1.0% in 2QFY24.
- Total other income grew 41% YoY (+16% QoQ).
- Overall opex grew 37% YoY and 9.5% QoQ. The cost-to-income ratio moderated 239bp QoQ to 40.4%.

#### Exhibit 2: Fee income-to-assets ratio (%) remained at 1.0% in 2QFY24



Source: MOFSL, Company

PCR improved to ~74% in 2QFY24

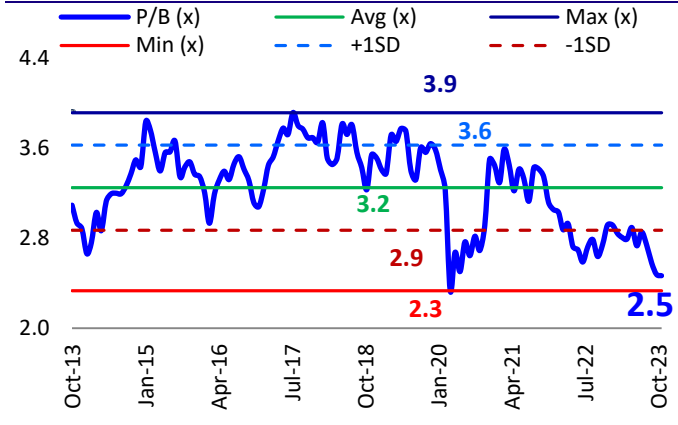
### Asset quality ratios deteriorated; PCR stood at 74% for merged entity

- The asset quality ratio increased, with GNPA/NNPA ratios at 1.3%/0.4%. Fresh slippages increased to INR78b (1.9%). The coverage ratio stood at ~74%.
- Recoveries stood at INR45bn and formed 22bp of gross advances, while write-offs stood at INR32.5bn and formed 17bp as on 2QFY24.
- Contingent and floating provisions amounted to INR156b as on 2QFY24.

### Valuation and view

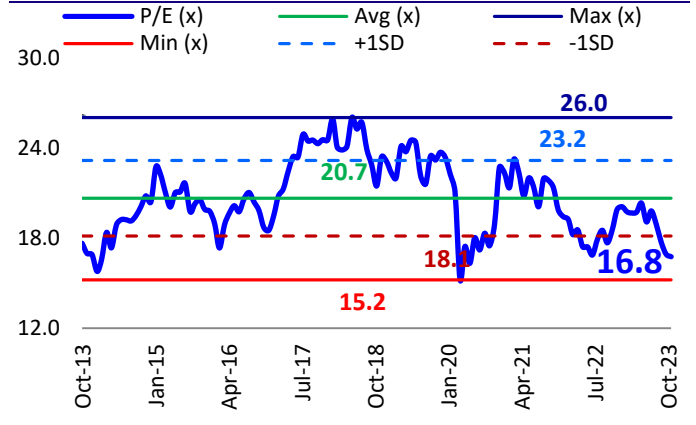
- BUY with a TP of INR1,950:** HDFCB reported a beat on profitability owing to healthy other income and a lower tax rate, partly offset by a miss on NII due to lower NIMs. Loan growth was healthy, driven by growth in retail and continued traction in Commercial and Rural banking. Asset quality ratios took a hit amid a 22bp impact from HDFCL's non-retail portfolio; however, the bank has maintained healthy PCR at 74%. It also holds 0.7% buffer of floating+ contingent provision, which provides comfort. HDFCB has made a good beginning and given a huge pace of capacity building, we believe that there are levers in place to sustain this momentum in business growth. Margins are likely to recover gradually, which, along with improved operating leverage, should improve return ratios. We estimate HDFCB to deliver a CAGR of 18%/20% in loan/deposit and a 21% CAGR in earnings over FY24-26, translating into RoA/RoE of 2%/17.4% by FY26E. We reiterate our BUY rating with an unchanged TP of INR1,950 (2.7x FY25E ABV + INR209 for subs).

**Exhibit 3: One-year forward P/B ratio**



Source: MOFSL, Company

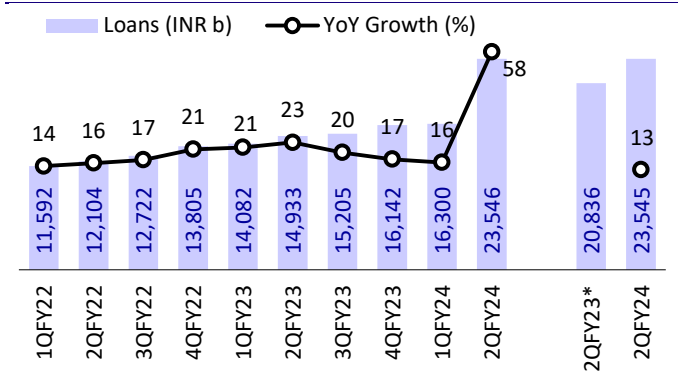
**Exhibit 4: One-year forward P/E ratio**



Source: MOFSL, Company

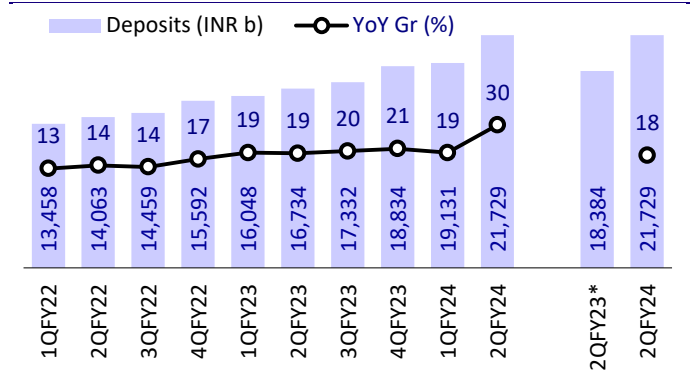
## Story in charts

**Exhibit 5: Loan book grew ~13% YoY/5.5% QoQ in 2QFY24**



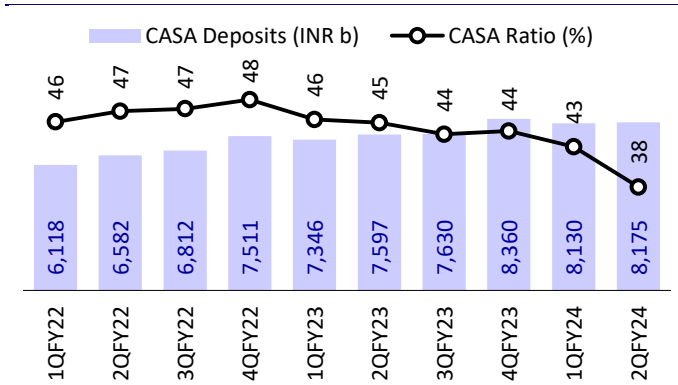
Source: MOFSL, Company

**Exhibit 6: Deposit grew at 18% YoY/5.3% QoQ in 2QFY24**



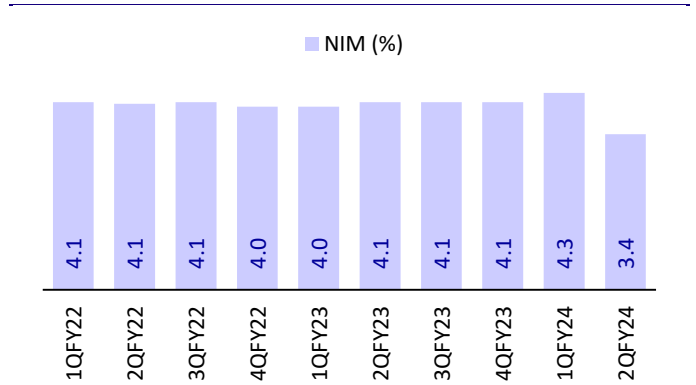
Source: MOFSL, Company

**Exhibit 7: CASA ratio moderated to 37.6% in 2QFY24**



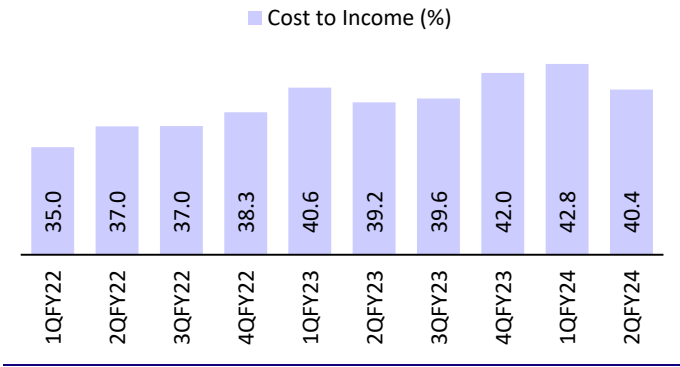
Source: MOFSL, Company

**Exhibit 8: NIM stood at 3.4% in 2QFY24**



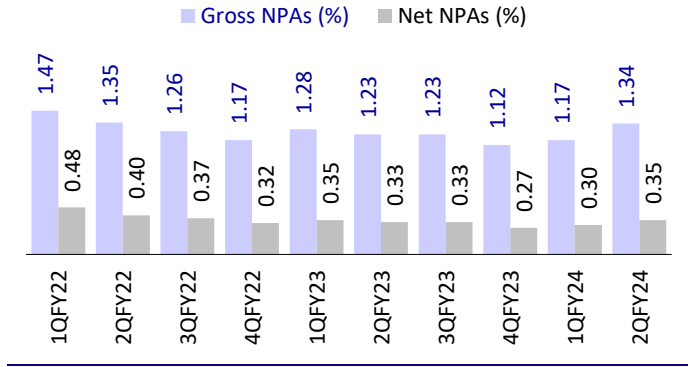
Source: MOFSL, Company

**Exhibit 9: C/I ratio moderated to 40.4% in 2QFY24**



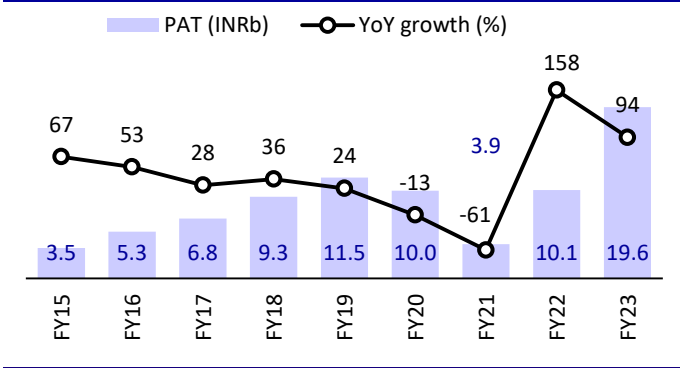
Source: MOFSL, Company

**Exhibit 10: GNPA/NNPA increased to 1.34%/0.35%**



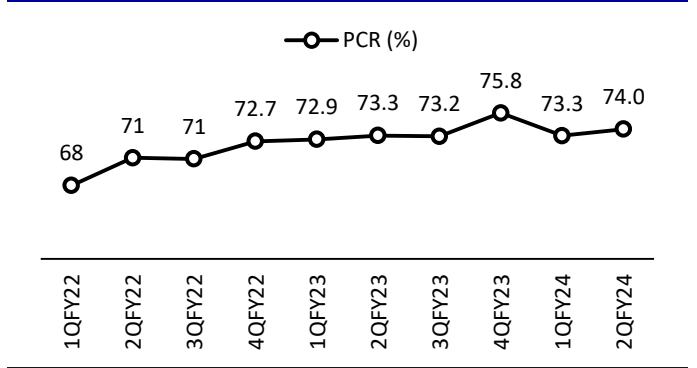
Source: MOFSL, Company

**Exhibit 11: PAT for HDB Financial grew 94% YoY in FY23**



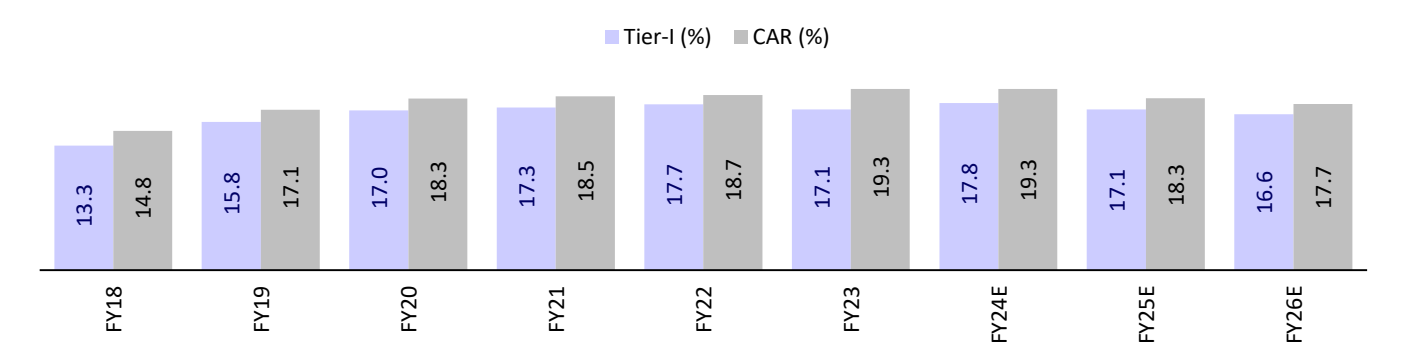
Source: MOFSL, Company

**Exhibit 12: PCR for merged entity stood at 74%**



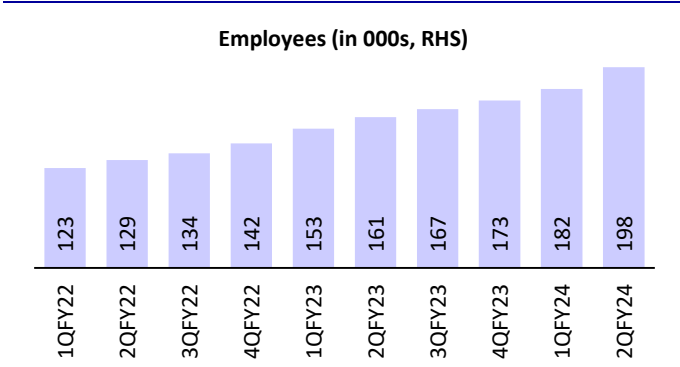
Source: MOFSL, Company

**Exhibit 13: Strong capitalization levels for HDFCB, with a total CAR of 19.3%**



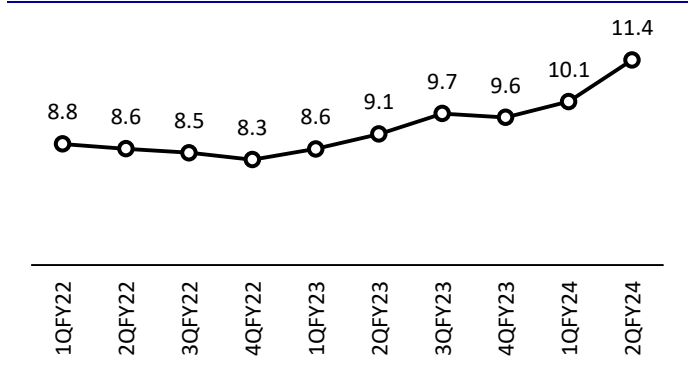
Source: MOFSL, Company

**Exhibit 14: Employee count stood at 198k in 2QFY24**



Source: MOFSL, Company

**Exhibit 15: Yields on advances stood at 11.4% in 2QFY24**



Source: MOFSL, Company



**Exhibit 16: DuPont Analysis – Return ratios to steadily improve**

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Interest Income</b>	<b>4.16</b>	<b>4.18</b>	<b>4.05</b>	<b>3.96</b>	<b>3.77</b>	<b>3.83</b>	<b>3.31</b>	<b>3.42</b>	<b>3.47</b>
Core Fee Income	1.31	1.34	1.38	1.15	1.22	1.24	1.10	1.13	1.15
Trading and others	0.27	0.19	0.30	0.39	0.33	0.13	0.14	0.16	0.16
<b>Non Interest income</b>	<b>1.58</b>	<b>1.53</b>	<b>1.68</b>	<b>1.54</b>	<b>1.55</b>	<b>1.38</b>	<b>1.24</b>	<b>1.28</b>	<b>1.32</b>
<b>Total Income</b>	<b>5.74</b>	<b>5.71</b>	<b>5.73</b>	<b>5.50</b>	<b>5.32</b>	<b>5.21</b>	<b>4.55</b>	<b>4.71</b>	<b>4.78</b>
<b>Operating Expenses</b>	<b>2.35</b>	<b>2.26</b>	<b>2.21</b>	<b>2.00</b>	<b>1.96</b>	<b>2.10</b>	<b>1.83</b>	<b>1.83</b>	<b>1.80</b>
Employee cost	0.71	0.67	0.69	0.63	0.63	0.68	0.58	0.59	0.58
Others	1.65	1.59	1.53	1.36	1.33	1.42	1.25	1.24	1.22
<b>Operating Profits</b>	<b>3.38</b>	<b>3.44</b>	<b>3.51</b>	<b>3.50</b>	<b>3.36</b>	<b>3.11</b>	<b>2.71</b>	<b>2.88</b>	<b>2.98</b>
<b>Provisions</b>	<b>0.61</b>	<b>0.65</b>	<b>0.88</b>	<b>0.96</b>	<b>0.79</b>	<b>0.53</b>	<b>0.34</b>	<b>0.35</b>	<b>0.36</b>
<b>PBT</b>	<b>2.77</b>	<b>2.79</b>	<b>2.64</b>	<b>2.54</b>	<b>2.57</b>	<b>2.58</b>	<b>2.38</b>	<b>2.53</b>	<b>2.63</b>
Tax	0.96	0.96	0.75	0.64	0.63	0.63	0.55	0.62	0.64
<b>RoA</b>	<b>1.81</b>	<b>1.83</b>	<b>1.89</b>	<b>1.90</b>	<b>1.94</b>	<b>1.95</b>	<b>1.83</b>	<b>1.91</b>	<b>1.98</b>
Leverage (x)	9.8	9.0	8.7	8.7	8.6	8.7	8.3	8.6	8.8
<b>RoE</b>	<b>17.9</b>	<b>16.5</b>	<b>16.4</b>	<b>16.6</b>	<b>16.7</b>	<b>17.0</b>	<b>15.1</b>	<b>16.4</b>	<b>17.4</b>

## Financials and valuations

Income Statement							(INRb)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,148.1	1,208.6	1,277.5	1,615.9	2,590.4	3,081.0	3,581.3
Interest Expense	586.3	559.8	557.4	747.4	1,453.1	1,713.3	1,955.8
<b>Net Interest Income</b>	<b>561.9</b>	<b>648.8</b>	<b>720.1</b>	<b>868.4</b>	<b>1,137.3</b>	<b>1,367.7</b>	<b>1,625.5</b>
Growth (%)	16.5	15.5	11.0	20.6	31.0	20.3	18.8
Non Interest Income	232.6	252.0	295.1	312.1	424.5	513.7	616.4
<b>Total Income</b>	<b>794.5</b>	<b>900.8</b>	<b>1,015.2</b>	<b>1,180.6</b>	<b>1,561.8</b>	<b>1,881.4</b>	<b>2,241.9</b>
Growth (%)	20.6	13.4	12.7	16.3	32.3	20.5	19.2
Operating Expenses	307.0	327.2	374.4	476.5	629.1	731.1	843.3
<b>Pre Provision Profits</b>	<b>487.5</b>	<b>573.6</b>	<b>640.8</b>	<b>704.0</b>	<b>932.6</b>	<b>1,150.3</b>	<b>1,398.6</b>
Growth (%)	22.6	17.7	11.7	9.9	32.5	23.3	21.6
<b>Core PPP</b>	<b>465.9</b>	<b>549.2</b>	<b>601.7</b>	<b>663.2</b>	<b>873.7</b>	<b>1,074.5</b>	<b>1,308.6</b>
Growth (%)	22.5	17.9	9.6	10.2	31.7	23.0	21.8
Provisions (excl tax)	121.4	157.0	150.6	119.2	116.2	138.3	166.7
<b>PBT</b>	<b>366.1</b>	<b>416.6</b>	<b>490.2</b>	<b>584.9</b>	<b>816.4</b>	<b>1,012.0</b>	<b>1,232.0</b>
Tax	103.5	105.4	120.5	143.8	187.8	247.9	301.8
Tax Rate (%)	28.3	25.3	24.6	24.6	23.0	24.5	24.5
<b>PAT</b>	<b>262.6</b>	<b>311.2</b>	<b>369.6</b>	<b>441.1</b>	<b>628.6</b>	<b>764.1</b>	<b>930.1</b>
Growth (%)	24.6	18.5	18.8	19.3	42.5	21.5	21.7

Balance Sheet							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	5.5	5.5	5.5	5.6	7.5	7.5	7.5
Reserves & Surplus	1,704.4	2,031.7	2,395.4	2,796.4	4,348.1	4,961.6	5,733.7
<b>Net Worth</b>	<b>1,709.9</b>	<b>2,037.2</b>	<b>2,400.9</b>	<b>2,802.0</b>	<b>4,355.6</b>	<b>4,969.1</b>	<b>5,741.2</b>
<b>Deposits</b>	<b>11,475</b>	<b>13,350.6</b>	<b>15,592.2</b>	<b>18,833.9</b>	<b>24,310.2</b>	<b>29,269.5</b>	<b>34,947.7</b>
Growth (%)	24.3	16.3	16.8	20.8	29.1	20.4	19.4
<b>of which CASA Dep</b>	<b>4,846.3</b>	<b>6,156.8</b>	<b>7,510.5</b>	<b>8,359.9</b>	<b>8,873.2</b>	<b>10,946.8</b>	<b>13,594.7</b>
Growth (%)	23.9	27.0	22.0	11.3	6.1	23.4	24.2
Borrowings	1,446.3	1,354.9	1,848.2	2,067.7	6,851.5	7,503.3	8,209.0
Other Liabilities & Prov.	673.9	726.0	844.1	957.2	1,273.8	1,439.4	1,640.9
<b>Total Liabilities</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>24,660.8</b>	<b>36,791.1</b>	<b>43,181.3</b>	<b>50,538.9</b>
Current Assets	866.2	1,194.7	1,523.3	1,937.7	2,068.8	2,279.9	2,567.8
<b>Investments</b>	<b>3,918.3</b>	<b>4,437.3</b>	<b>4,555.4</b>	<b>5,170.0</b>	<b>7,362.1</b>	<b>8,613.7</b>	<b>9,991.9</b>
Growth (%)	33.7	13.2	2.7	13.5	42.4	17.0	16.0
<b>Loans</b>	<b>9,937.0</b>	<b>11,328.4</b>	<b>13,688.2</b>	<b>16,005.9</b>	<b>25,050.6</b>	<b>29,559.7</b>	<b>34,880.4</b>
Growth (%)	21.3	14.0	20.8	16.9	56.5	18.0	18.0
Fixed Assets	44.3	49.1	60.8	80.2	136.7	147.3	172.3
Other Assets	539.3	459.3	857.7	1,467.1	2,172.9	2,580.8	2,926.4
<b>Total Assets</b>	<b>15,305.1</b>	<b>17,468.7</b>	<b>20,685.4</b>	<b>24,660.8</b>	<b>36,791.1</b>	<b>43,181.3</b>	<b>50,538.9</b>

Asset Quality							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA	126.5	150.9	161.4	180.2	320.4	329.5	384.8
NNPA	35.4	45.5	44.1	43.7	85.3	90.1	101.4
Slippages		160.4	268.6	245.4	328.5	409.6	467.2
GNPA Ratio	1.3	1.3	1.2	1.1	1.3	1.1	1.1
NNPA Ratio	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Slippage Ratio	1.9	1.5	2.1	1.7	1.6	1.5	1.5
Credit Cost	1.3	1.5	1.2	0.8	0.5	0.5	0.5
PCR (Excl Tech. write off)	72.0	69.8	72.7	75.8	73.4	72.7	73.6

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Yield &amp; Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>9.0</b>	<b>8.1</b>	<b>7.4</b>	<b>8.0</b>	<b>8.4</b>	<b>8.6</b>	<b>8.5</b>
Avg. Yield on loans	10.1	8.9	7.9	8.6	8.9	9.1	9.0
Avg. Yield on Invnt	6.1	5.6	5.8	6.5	6.8	6.9	6.9
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.0</b>	<b>4.1</b>	<b>3.5</b>	<b>3.9</b>	<b>5.0</b>	<b>5.0</b>	<b>4.9</b>
Avg. Cost of Deposits	4.9	4.0	3.4	3.6	4.6	4.7	4.6
<b>Interest Spread</b>	<b>4.0</b>	<b>4.0</b>	<b>3.9</b>	<b>4.1</b>	<b>3.3</b>	<b>3.5</b>	<b>3.6</b>
<b>Net Interest Margin</b>	<b>4.2</b>	<b>4.1</b>	<b>3.9</b>	<b>4.1</b>	<b>3.5</b>	<b>3.7</b>	<b>3.7</b>

### Capitalisation Ratios (%)

CAR	18.3	18.5	18.7	19.3	19.3	18.3	17.7
Tier I	17.0	17.3	17.7	17.1	17.8	17.1	16.6
Tier II	1.2	1.2	1.0	2.1	1.5	1.3	1.1
CET-1		16.9	16.7	16.4			

### Business and Efficiency Ratios (%)

Loans/Deposit	86.6	84.9	87.8	85.0	103.0	101.0	99.8
CASA Ratio	42.2	46.1	48.2	44.4	36.5	37.4	38.9
Cost/Assets	2.0	1.9	1.8	1.9	1.7	1.7	1.7
Cost/Total Income	38.6	36.3	36.9	40.4	40.3	38.9	37.6
Cost/Core Income	39.7	37.3	38.4	41.8	41.9	40.5	39.2
Int. Expense/Int.Income	51.1	46.3	43.6	46.3	56.1	55.6	54.6
Fee Income/Total Income	24.1	20.9	22.9	23.9	24.1	23.9	24.1
Non Int. Inc./Total Income	29.3	28.0	29.1	26.4	27.2	27.3	27.5
Empl. Cost/Total Expense	31.0	31.7	32.1	32.6	31.6	32.0	32.2
Profit per Employee (INR m)	2.5	2.6	2.6	2.5	3.1	3.1	3.2
Investment/Deposit Ratio	34.1	33.2	29.2	27.5	30.3	29.4	28.6
G-Sec/Investment Ratio	81.2	79.3	80.5	84.6	84.6	84.6	84.6

### Valuation

RoE	16.4	16.6	16.7	17.0	15.1	16.4	17.4
RoA	1.9	1.9	1.9	1.9	1.8	1.9	2.0
RoRWA	2.6	2.8	2.8	2.9	2.8	2.9	3.0
Book Value (INR)	312	370	433	502	579	660	763
Growth (%)	13.8	18.5	17.2	16.0	15.3	14.1	15.5
<b>Price-BV (x)</b>	<b>4.9</b>	<b>4.1</b>	<b>3.5</b>	<b>3.1</b>	<b>2.6</b>	<b>2.3</b>	<b>2.0</b>
Adjusted BV (INR)	300	357	420	490	564	643	744
<b>Price-ABV (x)</b>	<b>5.1</b>	<b>4.3</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>	<b>2.1</b>
EPS (INR)	48.0	56.6	66.8	79.3	83.5	101.5	123.6
Growth (%)	21.2	17.8	18.1	18.6	5.3	21.5	21.7
<b>Price-Earnings (x)</b>	<b>31.9</b>	<b>27.1</b>	<b>22.9</b>	<b>19.3</b>	<b>18.3</b>	<b>15.1</b>	<b>12.4</b>
Dividend Per Sh (INR)	11.9	6.5	15.5	19.0	19.0	20.0	21.0
<b>Dividend Yield (%)</b>	<b>0.8</b>	<b>0.4</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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