

HDFC Bank Ltd.
NIMs at the bottom; Expect improvement from hereon; Business momentum to remain healthy

CMP INR 1,541	Target INR 2,060	Potential Upside 33.7%	Market Cap (INR Mn) 1,16,94,951	Recommendation BUY	Sector Banking
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Result Highlights for Q2 FY24:

- Net Interest Income (NII) for Q2FY24 stood at INR 2,73,852 Mn, a growth of 30.3% YoY/ 16.0% QoQ
- Pre-Provision Operating Profits (PPOP) grew 30.5% YoY/ 20.9% QoQ to INR 2,26,939 Mn. The non-interest income for the quarter stood at INR 1,07,078 Mn, a growth of 16.0% QoQ/ 41.0% YoY.
- Net profit for Q2FY24 stood at INR 1,59,761 Mn, a jump of +50.6% YoY/ 33.7% QoQ.
- As of September 30, 2023, advances were reported at INR 2,33,12,329 Mn, a growth of 57.5% YoY/ 44.3% QoQ. The deposit grew by 29.8% YoY/ 13.6% QoQ at INR 2,17,28,578 Mn, with the CASA ratio at 37.6% as against 45.4% a year ago.
- HDFCB reported its GNPA's at 1.34% as of September 30, 2023, compared with 1.23% as of September 30, 2022 (vs 1.41% as of June 30, 2023, on a proforma merged basis). The NNPA's for the quarter ended stood at 0.35% vs 0.33% of the net advances as of September 30, 2022. Capital Adequacy Ratio (CAR) stood at 19.5%. CET-1 ratio stood at 17.8% as of September 30, 2023.

MARKET DATA

Shares outs (Mn)	758
Equity Cap (INR Mn)	40,50,298
Mkt Cap (INR Mn)	1,16,94,951
52 Wk H/L (INR)	1,758/1,427
Volume Avg (3m K)	21,362
Face Value (INR)	1.0
Bloomberg Code	HDFCB IN

KEY FINANCIALS

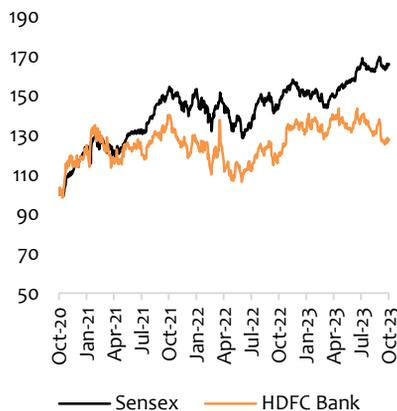
INR Mn	FY21	FY22	FY23	FY24E	FY25E
NII	6,48,795	7,20,096	8,68,422	11,23,385	14,34,995
PPOP	5,73,618	6,40,773	7,04,050	9,27,883	11,56,529
PAT	3,11,165	3,69,613	4,41,087	6,24,428	7,55,050
EPS (INR / Share)	56.5	66.7	79.3	82.4	99.6
BVPS (INR / Share)	369.9	432.9	502.2	591.6	676.1
NIM (%)	4.2%	4.0%	4.3%	3.7%	3.8%
Advances Growth YoY (%)	14.0%	20.8%	16.9%	56.3%	17.7%

Source: Company, KRChoksey Research

Credit offtake remains healthy; CASA ratio drops further with higher traction in term deposits:

HDFCB registered a loan book growth of 57.5% YoY/ 44.3% QoQ in Q2FY24 at INR 23,312 Bn. On a proforma merged basis (HDFCB+ HDFC Ltd), the QoQ growth in advances stood at 5.9%. The retail segment led the growth and reported an increase of 106.6% YoY/ 3.1% QoQ on a proforma basis while excluding the mortgage segment, the growth was 15.4% YoY/ 2.5% QoQ. The Commercial Rural Banking (CRB) segment continued to see robust growth of 29.5% YoY/ 9.7% QoQ, led by the improved geographical penetration in the SME business. The wholesale lending book (excluding HDFC Ltd) grew by 7.9% YoY/ 5.8% QoQ. HDFCB has been well-placed to capitalize on the industry opportunity supported by its efforts to deepen its penetration in semi-urban & rural areas and focus on a newer product pipeline. On the liability side, with a focus on granularity, HDFCB reported its deposit growth at 29.8% YoY/ 13.6% QoQ. Term deposits continued to see higher traction, given the interest rate scenario & customer preference. This segment reported a growth of 48.3% YoY. The CASA ratio for the quarter stood at 37.6%, declining from 42.5% as of June 30, 2023, impacted by the merging of HDFC Ltd.'s higher share of time deposits into HDFCB's books. HDFCB continues to see bigger growth opportunities in the retail current account segment, which is managed through various treasuries.

NIMs declined in line with managements' guidance led by excess liquidity post merger: NIMs (Net Interest Margins) for Q2FY24 stood at 3.4%, post absorption of debt-funded cost for additional liquidity and merger management, as against 4.1% in Q1FY24 (vs 4.1% in Q2FY24). The core NIM for the quarter was 3.65% on total assets and 3.85% on interest-earning assets. An impact of 25 bps has been seen on account of excess liquidity & incremental CRR. HDFCB is confident that it will be able to recoup partial NIMs as it is working on substituting the high-cost bonds with deposits and mix of its business loans with a focus on increasing the share of retail business. On the overall profitability front, the bank reported an earnings growth of 50.6% YoY, led by healthy operating performance and a lower % tax rate of 19.3%. A write-back of INR 10 Bn tax provision led to a lower tax rate.

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	66,428
NIFTY	19,812

SHARE HOLDING PATTERN (%)

Particulars	Sep-23	Jun-23	Mar-23
Promoters	0.0	25.5	25.6
FII's	52.1	33.4	32.2
DIIs	30.6	27.0	28.3
Others	17.2	14.1	13.8
Total	100.0	100.0	100.0

28.5%

NII CAGR between FY23 and FY25E

30.8%

PAT CAGR between FY23 and FY25E

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HDFC Bank Ltd.

Asset Quality stable; Remains adequately provided: The GNPA, as of September 30, 2023, stood at 1.34% of the gross advances as against 1.41% as of June 30, 2023, on a proforma basis. The net NPAs were at 0.35% during the quarter vs 0.40%, as of June 30, 2023. The slippage ratio for Q2FY24 stood at 32 bps, amounting to INR 78 Bn. The recoveries and upgrades were INR 45.0 Bn, and the write-offs were INR 32.5 Bn. There was no sale of any NPA accounts in Q2FY24. Total provisions for Q2FY24 declined by 10.4% YoY at INR 29,038 Mn. The core-specific loan loss provision was around INR 25 Bn against INR 27 Bn in Q1FY24. The provision coverage ratio was 74.4% as of September 30, 2023. The contingent and floating provisions are held at INR 156 Bn, while general provisions were INR 101 Bn. Thus, total provisions comprising specific floating contingent and general were ~156.0% of gross non-performing loans. This is in addition to securities held as collateral in several cases. Floating, contingent and general provisions were 1.09% of gross advances as of September 30, 2023. The total annualized credit cost ratio for Q2FY24 was 49 bps vs 70 bps in Q1FY24 (vs 87 bps in Q2FY23). We expect asset quality to remain stable given the comfortable levels of additional provisioning buffer on the books.

Key Concall Highlights:

Macro Update:

- Indian economy continued to see good domestic demand conditions and Capex push by the Government. The key logistics indicators were relatively healthy and good.
- RBI kept its rate unchanged at 6.5%.
- The estimate of the GDP growth for FY24E stood at 6.3%, demonstrating that India is one of the fastest-growing economies in the world.

Operational Update:

- HDFCB's branch network stood at 7,945 outlets as of September 30, 2023. Overall, there has been an increase of 1,446 branches over the last 12 months, including 85 branches in the quarter. In addition, the Bank is operating over 400 branches of erstwhile HDFC branches under the bank banner now, and it is progressively developing other banking product capabilities as it goes through the year.
- Payment acceptance points as of September 30, 2023, are at 4.9 Mn, a YoY growth of 43.0%, as adopting the Vyapar app has built a healthy momentum.
- In the Commercial Rural Banking (CRB) segment, which runs the SME businesses, the rural business reach expanded to 0.185 Mn villages and is on track to reach the objectives of over 0.2 Mn villages in the near term.
- Gold loan processing started a few quarters ago and is offered in 4,544 branches, an increase of 53.0% over the prior year.
- HDFCB has built its customer franchise by adding 2.7 Mn new liability relationships in Q2FY24. Its customer base stood at 91 Mn as of September 30, 2023, including those added in the merger. This provides the opportunity to engage further and deepen the customer relationships.
- On cards, the Bank has issued 1.7 Mn cards during the quarter, taking the total base to 18.8 Mn.
- PayZapp 2.0 currently has 3 Mn registered users and handles a daily volume of 0.25 Mn transactions.
- Xpress Car Loans has bought and contributed almost 30.0% of HDFCB's car volumes.
- Balance sheet remains resilient. LCR (Liquidity Coverage Ratio) for the quarter was 121.0% after absorbing the 4-plus percentage points from the ICRR (Incremental Cash Reserve Ratio).
- HDB Financial Services' loan book stood at INR 780 Bn and grew 5.8% QoQ. Customer franchise grew to 13.6 Mn customers with 6.3% additions during the quarter.
- On an iGAAP basis, HDFCLIFE's profit after tax for the September quarter increased to INR 3,770 Mn from INR 3,260 Mn.
- HDFC Securities has a network of 203 branches as of September 30, 2023, and the net profit after tax was INR 2,140 Mn against INR 1,910 Mn for the same time last year.
- The Bank has maintained the return on assets to around the 2% mark and the ROE at the 16.2% mark, led by healthy topline & profitability growth, which is expected to improve further in the medium to long term.
- The book value per share on a standalone bank-level stood at INR 534 as of September 30, 2023, and at a consolidated bank level, is at INR 553.

Valuation and view: HDFCB reported healthy earnings growth in Q2FY24, led by healthy growth in the operating income and lower tax rate. The return on assets continued to be around 2.0% during the quarter, led by healthy profitability. Thus, the management is confident of maintaining the superior return ratios in the long run. The retail & CRB segments continued to drive credit growth and were also aided by the HDFC Ltd portfolio. Retail segment & granularity of the portfolios are expected to be the key growth drivers on the credit as well as deposit fronts. NIMs were under pressure during the quarter, primarily because of the excess liquidity on the books. Thus, HDFCB is expected to restructure its borrowing mix and strive for higher deposit growth in coming quarters to regain its NIMs levels, as the bank believes that the worst is over in terms of margin compression. We see NIMs to remain modest in the near term. The bank has guided for margins in the range of 3.7-3.8% for FY24E. We expect CAGR in NII at 28.5%, PPOP at 28.2%, and PAT at 30.8% over FY23-25E. HDFCB is currently trading at 2.7x/ 2.4x FY24E/ FY25E P/ABV, respectively. The stock has seen a correction of 8.0% since our last update on the back of the overhang of the merger impact on the financial. We see HDFCB's current valuation to re-rate on the back of a) a strong balance sheet, b) improved opportunities for business growth with healthy CET, c) improving margin outlook in the long term; and d) an adequate cushioning in terms of provisions with stable asset quality. We value the bank's standalone business at 2.8x FY25E P/ABV to INR 1,857 and the subsidiaries at INR 203, taking the total value to INR 2,060 (unchanged), implying an upside of 33.7% from the current price. Accordingly, we maintain a "BUY" rating on the shares of HDFC Bank Ltd.

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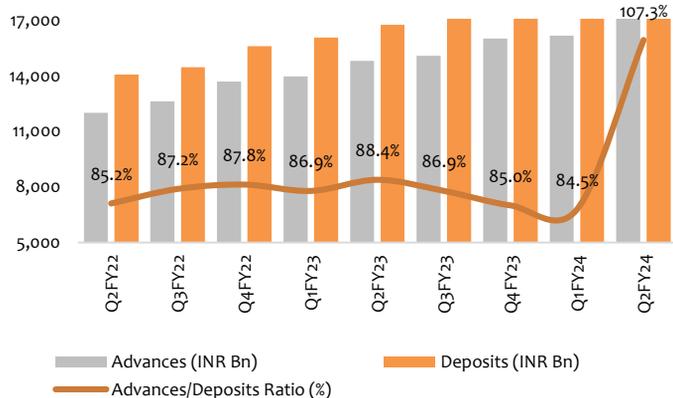
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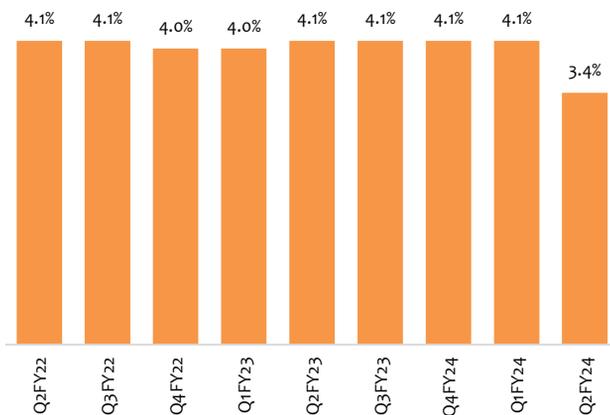
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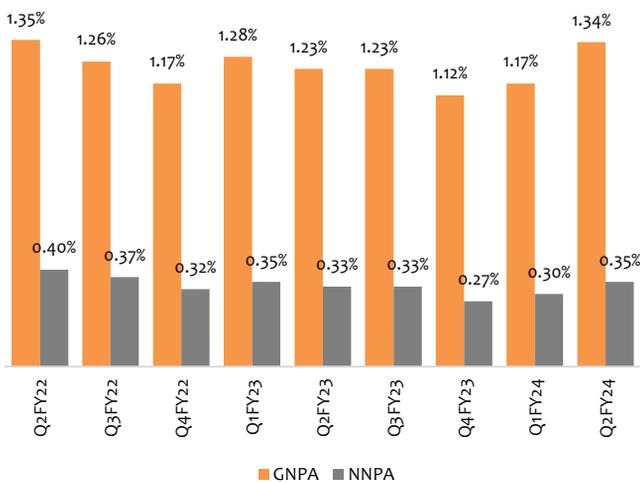
Advance/Deposit: C/D Ratio higher owing to merged books



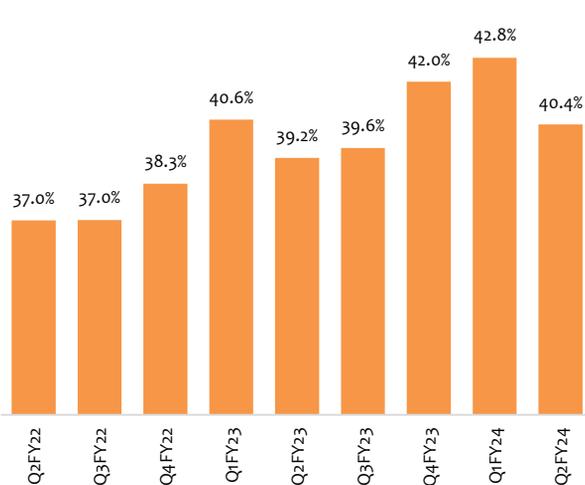
Net Interest Margins



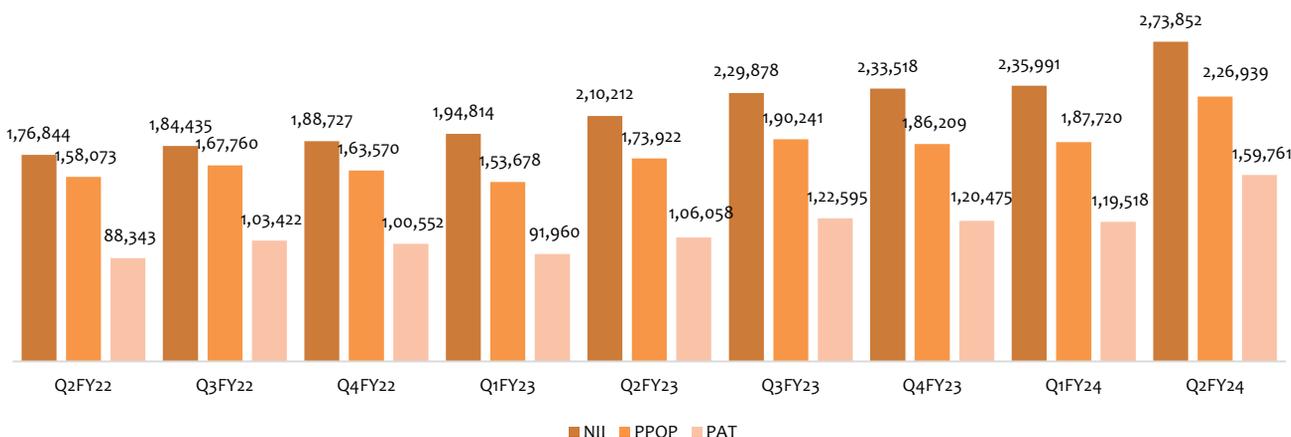
Asset Quality: Improves QoQ on proforma merged basis



Cost/Income: Improvement led by higher operating income



Performance at Glance (In Mn)



Source: Company, KRChoksey Research

HDFC Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Interest Income	12,08,581	12,77,531	16,15,856	24,13,978	31,22,848
Interest Expense	5,59,787	5,57,435	7,47,433	12,90,592	16,87,853
Net Interest Income	6,48,795	7,20,096	8,68,422	11,23,385	14,34,995
Non-interest income	2,52,049	2,95,099	3,12,148	4,10,305	4,76,623
Operating income	9,00,844	10,15,195	11,80,571	15,33,690	19,11,618
- Employee expense	1,03,648	1,20,317	1,55,124	1,99,380	2,48,510
- Other operating expense	2,23,578	2,54,105	3,21,397	4,06,428	5,06,579
Operating Expense	3,27,226	3,74,422	4,76,521	6,05,808	7,55,089
PPOP	5,73,618	6,40,773	7,04,050	9,27,883	11,56,529
Provisions	1,57,029	1,50,618	1,19,197	1,16,937	1,49,796
PBT	4,16,589	4,90,155	5,84,853	8,10,946	10,06,733
Tax Expense	1,05,424	1,20,541	1,43,766	1,86,518	2,51,683
PAT	3,11,165	3,69,613	4,41,087	6,24,428	7,55,050
Diluted EPS (INR)	56.5	66.8	79.3	82.4	99.6

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 2: Balance Sheet

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Source of Funds					
Share capital	5,513	5,546	5,580	7,582	7,582
Reserves & Surplus	20,31,695	23,95,384	27,96,411	44,77,679	51,18,852
Networth	20,37,208	24,00,929	28,01,990	44,85,261	51,26,434
Borrowings	13,54,873	18,48,172	20,67,656	68,02,821	71,42,963
Deposits	1,33,50,602	1,55,92,174	1,88,33,947	2,42,95,791	2,91,54,949
Other liabilities & provisions	7,26,022	8,44,075	9,57,223	8,90,346	10,17,818
Total Equity & Liabilities	1,74,68,705	2,06,85,351	2,46,60,815	3,64,74,219	4,24,42,164
Uses of Funds					
Balance w/ RBI	9,73,407	14,12,000	11,71,608	17,00,705	18,95,072
Balance w/ banks & others	2,21,297	2,23,313	7,66,043	3,64,437	3,35,282
Net investments	44,37,283	45,55,357	51,70,014	74,10,216	86,00,710
Loans & advances	1,13,28,366	1,36,88,209	1,60,05,859	2,50,24,665	2,94,46,499
Fixed assets	49,093	60,837	80,166	1,40,290	1,47,304
Other assets	4,59,259	8,57,678	14,67,125	18,33,907	20,17,297
Total Assets	1,74,68,705	2,06,85,351	2,46,60,815	3,64,74,219	4,24,42,164

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23	FY 24E	FY 25E
Growth Rates					
Advances (%)	14.0%	20.8%	16.9%	56.3%	17.7%
Deposits (%)	16.3%	16.8%	20.8%	29.0%	20.0%
Total assets (%)	14.1%	18.4%	19.2%	47.9%	16.4%
NII (%)	15.5%	11.0%	20.6%	29.4%	27.7%
Pre-provisioning profit (%)	17.7%	11.7%	9.9%	31.8%	24.6%
PAT (%)	18.5%	18.8%	19.3%	41.6%	20.9%
B/S Ratios					
Credit/Deposit (%)	84.9%	87.8%	85.0%	103.0%	101.0%
CASA (%)	46.1%	48.2%	44.4%	39.4%	39.4%
Advances/Total assets (%)	64.8%	66.2%	64.9%	68.6%	69.4%
Leverage - Total Assets to Equity	8.57	8.62	8.80	8.13	8.28
Operating efficiency					
Cost/income (%)	36.3%	36.9%	40.4%	39.5%	39.5%
Opex/total assets (%)	1.9%	1.8%	1.9%	1.7%	1.8%
Opex/total interest earning assets	2.1%	2.1%	2.3%	2.3%	2.1%
Profitability					
NIM (%)	4.2%	4.0%	4.3%	3.7%	3.8%
RoA (%)	1.9%	1.9%	1.9%	2.0%	1.9%
RoE (%)	16.6%	16.7%	17.0%	17.1%	15.7%
Asset quality					
Gross NPA (%)	1.3%	1.2%	1.1%	1.3%	1.3%
Net NPA (%)	0.4%	0.3%	0.3%	0.3%	0.3%
PCR (%)	69.8%	72.7%	75.8%	76.0%	77.5%
Slippage (%)	1.9%	2.0%	1.8%	1.7%	1.7%
Credit cost (%)	1.5%	1.5%	0.8%	0.7%	0.7%
Per share data / Valuation					
EPS (INR)	56.5	66.7	79.3	82.4	99.6
BVPS (INR)	369.9	432.9	502.2	591.6	676.1
ABVPS (INR)	361.6	425.0	494.3	581.0	664.7
P/E (x)	26.4	22.1	20.3	19.1	15.8
P/BV (x)	4.0	3.4	3.2	2.7	2.3
P/ABV (x)	4.1	3.5	3.3	2.7	2.4

Source: Company, KRChoksey Research

HDFC Bank Ltd.

HDFC Bank Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
18-Oct-23	1,541	2,060	BUY	Buy	More than 15%
18-Jul-23	1,678	2,060	BUY		
17-Apr-22	1,665	1,960	BUY	Accumulate	5% – 15%
16-Jan-22	1,586	1,960	BUY	Hold	0 – 5%
17-Oct-22	1,445	1,836	BUY	Reduce	-5% – 0
18-Jun-22	1,348	1,836	BUY	Sell	Less than – 5%
18-Apr-22	1,395	1,997	BUY		

ANALYST CERTIFICATION:

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