

**All eyes on margin, deposit growth recovery**

BFSI - Banks ▶ Result Update ▶ January 17, 2024

**TARGET PRICE (Rs) : 2,100**

Despite the slower NII growth and contingent provisions (Rs12.2bn) towards AIF investments, HDFCB reported in-line PAT at Rs163.7bn, primarily due to lower tax incidence (write-back of Rs15bn provisions, pursuant to a favorable court order). After sharp fall in 2Q, Bank noted stable NIM at 3.6% (3.4% on assets), which we believe was partly due to absence of the ICRR drag and a better LDR. Though deposit growth was slower in 3Q (+2% QoQ), Bank contends that it would continue to resist bulk deposits unlike other banks, and even mobilize regulatory cost-efficient borrowings in the interim. That said, we believe the Bank needs to accelerate deposit growth, given rising regulatory concerns about higher LDR (+100%) and lower LCR at 110%. This may have some bearing on margins in the near term, but would support structural margin recovery in the long run, as it replaces the high-cost eHDFCL borrowings and thus supports core profitability. On asset quality, Bank remains comfortably placed, while one off-gains from the HDFC Credila stake sale, potentially in 4Q, could help it further shore-up provision buffers. We cut FY25-26E earnings by 3%, building-in the growth moderation, but retain our long term BUY with TP of Rs2,100/sh (valuing the core bank at 2.8x Dec-25E ABV + subs at Rs192/sh). That said, all eyes will be on deposit and margin recovery in the near term.

**HDFC Bank: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	3,69,614	4,41,087	6,75,846	7,52,100	8,87,270
Loan growth (%)	20.8	16.9	57.9	15.0	16.0
NII growth (%)	11.0	20.6	31.9	17.6	18.4
NIM (%)	3.9	4.1	3.6	3.6	3.7
PPOP growth (%)	11.7	9.9	45.5	13.3	18.9
Adj. EPS (Rs)	66.7	79.1	89.0	99.1	116.9
Adj. EPS growth (%)	18.1	18.6	12.6	11.3	18.0
Adj. BV (INR)	428.3	497.8	548.0	624.3	715.4
Adj. BVPS growth (%)	17.5	16.2	10.1	13.9	14.6
RoA (%)	1.9	1.9	2.0	1.9	1.9
RoE (%)	16.7	17.0	16.0	16.4	16.9
P/E (x)	25.2	21.2	18.9	17.0	14.4
P/ABV (x)	3.5	3.0	2.7	2.4	2.1

Source: Company, Emkay Research

**Credit growth accelerates, but deposit/branch growth lags**

HDFC Bank posted healthy credit growth of 17% YoY/5% QoQ on merged basis, backed by strong momentum in retail mortgages and CRB. But deposit growth was relatively moderate at 17% YoY/2% QoQ – incremental QoQ growth at Rs0.4trn vs Rs1.1trn in Q2FY24, leading to higher LDR at 110%. Bank contends it will continue resisting bulk deposit growth unlike other banks, and even mobilize regulatory cost efficient borrowings (raised infra bonds in 3Q) to fund growth. That said, the bank's branch expansion is lagging, with only 270 branches added till YTD vs original target of 1,500 branches (now being toned down to 1,000 for FY24). Reported NIM (on IEA) as well as core NIM (on average assets) for the bank remained stable at 3.6% and 3.4%, respectively, while any deposit acceleration in 4Q could delay/soften near-term margin recovery.

**Builds-in the strong specific-/contingent-provision buffer to withstand any future asset-quality hiccups**

After a sharp jump in NPAs during 2Q due to the merger, the bank's GNPA/NNPA ratio improved by 8bps/4bps QoQ to 1.3%/0.3%, respectively, due to contained slippages. Bank's specific PCR too has improved, to 75%, while the bank has made additional contingent provisions of Rs12.2bn towards its AIF exposure. Additionally, the bank carries NPA contingent provision buffer @0.6% of loans, which we believe it may look to shore-up further, given the potential one-off stake sale gain from HDFC Credila in 4Q. We believe that healthy specific PCR coupled with a strong contingency buffer should help the bank sustain LLP under 0.9% to 1% and, thus, support its RoA over FY24-26E amid margin/cost pressure.

**We retain BUY, with unchanged TP of Rs2,100/share**

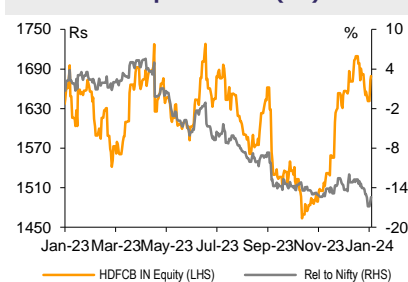
We retain our long-term BUY on HDFCB, with unchanged TP of Rs2,100/share (valuing the core bank at 2.8x its Dec-25E ABV + subsidiary/investment value at Rs192/share), as we believe the merger drag should ease gradually over FY25-26E and lead to sustained RoA/RoE of ~1.9%/16-17% over FY25-26E. Further, we prefer HDFCB with relatively better management stability/valuations vs Kotak, which is undergoing management transition that could be disruptive, as seen in the case of HDFCB. The long-awaited listing of HDB Financial Services should be another catalyst for the stock, going ahead.

Target Price – 12M	Dec-24
<b>Change in TP (%)</b>	<b>NA</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	25.1
CMP (16-Jan-24) (Rs)	1,679.2

Stock Data	Ticker
52-week High (Rs)	1,758
52-week Low (Rs)	1,460
Shares outstanding (mn)	7,592.5
Market-cap (Rs bn)	12,749
Market-cap (USD mn)	1,53,463
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	16
ADTV-3M (Rs mn)	25,143.2
ADTV-3M (USD mn)	302.7
Free float (%)	99.0
Nifty-50	22,032
INR/USD	83.1
<b>Shareholding, Dec-23</b>	
Promoters (%)	-
FPIs/MFs (%)	45.2/26.6

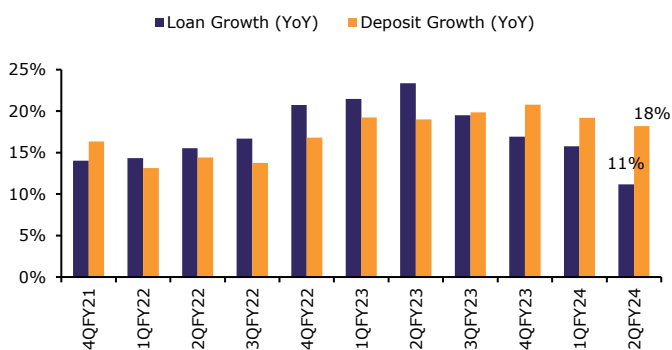
**Price Performance**

(%)	1M	3M	12M
Absolute	1.4	9.8	5.9
Rel. to Nifty	(1.3)	(1.7)	(14.0)

**1-Year share price trend (Rs)****Anand Dama**anand.dama@emkayglobal.com  
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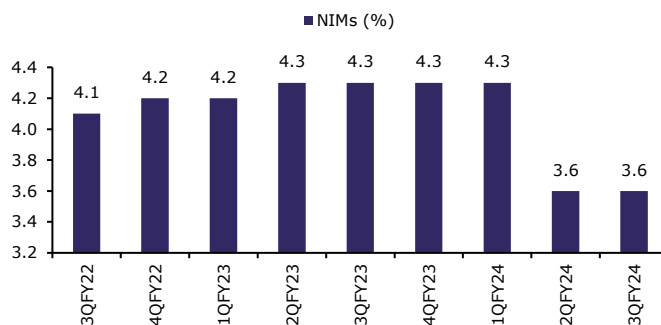
# Story in Charts

**Exhibit 1: Slower deposit growth remains an irritant**



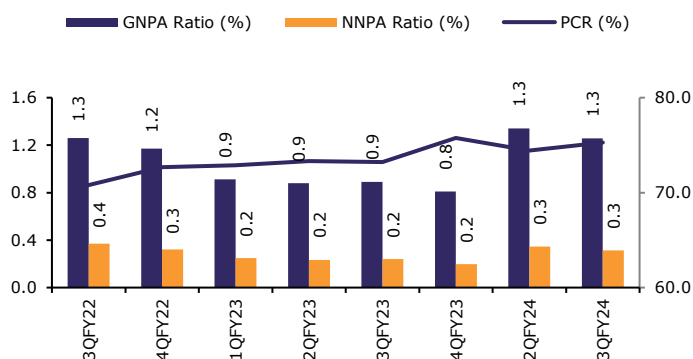
Source: Company, Emkay Research

**Exhibit 2: Bank reported nearly stable NIM after a sharp fall in 2Q due to impact of the merger and the ICRR drag**



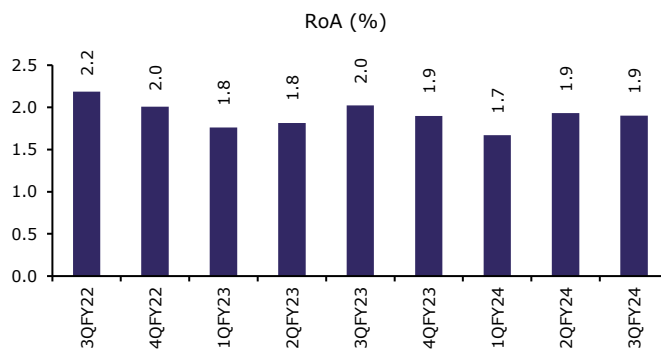
Source: Company, Emkay Research  
 Note: Figures from 2QFY24 represent NIM on merged basis and are thus not comparable with the historical trend

**Exhibit 3: NPA ratio too moderates after a jump in 2Q due to recognition of stress in eHDFCLs portfolio**



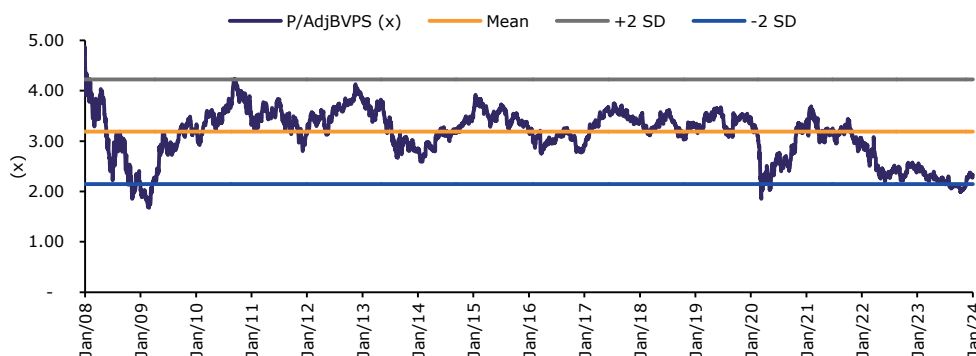
Source: Company, Emkay Research

**Exhibit 4: Bank continues to clock healthy RoA in 3Q due to lower tax incidence**



Source: Company, Emkay Research

**Exhibit 5: HDFCB trades at 2.8x one-year forward ABV**



Source: Bloomberg, Emkay Research

**Exhibit 6: Actuals vs Estimates (Q2FY24)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	396,084	406,587	370,494	-3%	7%	High CoF and decline in other income lead to shortfall
PPOP	236,473	244,961	222,108	-3%	6%	Shortfall in Net income leads to lower PPOP
PAT	163,725	162,715	146,056	1%	12%	Decline in provisions and tax expenses (due to a one-off provision write back) lead to a beat on our PAT

Source: Company, Emkay Research

**Exhibit 1: Key assumptions**

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	16.9	57.9	15.0	16.0
Deposit Growth (%)	20.8	26.6	20.9	22.0
NIM (%)	4.1	3.6	3.6	3.7
GNPA (%)	1.1	1.2	1.2	1.2
Credit Cost (%)	0.8	0.8	0.7	0.7

Source: Emkay Research

**Exhibit 2: Key Ratios and trend**

(Rs bn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans*	<b>12,609</b>	<b>13,688</b>	<b>13,951</b>	<b>14,799</b>	<b>15,068</b>	<b>16,006</b>	<b>16,157</b>	<b>23,312</b>	<b>23,312</b>
YoY growth (%)	16.5	20.8	21.6	23.4	19.5	16.9	15.8	11.2	16.7
Loans QoQ (%)	<b>5.2</b>	<b>8.6</b>	<b>1.9</b>	<b>6.1</b>	<b>1.8</b>	<b>6.2</b>	<b>0.9</b>	<b>3.2</b>	<b>4.9</b>
<b>Composition (%)</b>									
- Corporate	49.9	52.1	64.1	65.2	63.1	63.9	63.6	48.5	48.5
- Retail	46.7	44.8	32.4	31.7	34.1	33.5	33.8	51.5	49.8
- Overseas	3.4	3.1	3.5	3.1	2.8	2.6	2.6	0.0	1.7
QoQ growth (%)	5.2	8.6	1.9	6.1	1.8	6.2	0.9	3.2	4.9
<b>Liability Profile &amp; Margins</b>									
Deposits*	<b>14,459</b>	<b>15,592</b>	<b>16,048</b>	<b>16,734</b>	<b>17,332</b>	<b>18,834</b>	<b>19,131</b>	<b>21,729</b>	<b>22,140</b>
YoY growth (%)	13.8	16.8	19.2	19.0	19.9	20.8	19.2	18.2	16.8
QoQ growth (%)	2.8	7.8	2.9	4.3	3.6	8.7	1.6	5.3	1.9
CA	2,102	2,393	2,206	2,300	2,277	2,735	2,524	2,477	2,558
SA	4,710	5,117	5,141	5,297	5,352	5,625	5,606	5,700	5,799
CASA (%)	47.1	48.2	45.8	45.4	44.0	44.4	42.5	37.6	37.7
CA (%)	14.5	15.3	13.7	13.7	13.1	14.5	13.2	11.4	11.6
SA (%)	32.6	32.8	32.0	31.7	30.9	29.9	29.3	26.2	26.2
NIM (%)	4.1	4.2	4.2	4.3	4.3	4.3	4.3	3.6	3.4
No. of branches	5,779	6,342	6,378	6,499	7,183	7,821	7,860	7,945	8,091
<b>Asset Quality &amp; Capital Adequacy (%)</b>									
GNPA	1.26	1.17	0.91	0.88	0.89	0.81	0.85	1.34	1.26
NNPA	0.37	0.32	0.25	0.23	0.24	0.20	0.21	0.35	0.31
PCR	70.6	72.6	72.7	73.5	73.0	75.6	75.1	74.2	75.0
CAR	19.5	18.9	18.1	18.0	19.4	19.3	18.9	19.5	18.4
Tier I	18.4	17.9	17.1	17.1	17.2	17.1	16.9	17.8	16.8
<b>ROE Decomposition (%)</b>									
NII	<b>3.9</b>	<b>3.8</b>	<b>3.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.7</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>
Other Income (Ex Treasury)	1.5	1.5	1.5	1.3	1.4	1.4	1.2	1.2	1.1
Opex	2.1	2.0	2.0	1.9	2.1	2.1	2.0	1.9	1.9
PPOP	<b>3.5</b>	<b>3.3</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>
Provisioning Cost	0.6	0.7	0.6	0.6	0.5	0.4	0.4	0.4	0.5
PBT	<b>2.9</b>	<b>2.6</b>	<b>2.3</b>	<b>2.4</b>	<b>2.7</b>	<b>2.5</b>	<b>2.2</b>	<b>2.4</b>	<b>2.3</b>
ROA	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>
Leverage (x)	8.2	8.3	8.3	9.2	9.1	9.1	9.7	8.2	8.2
ROE	<b>18.0</b>	<b>16.8</b>	<b>14.7</b>	<b>16.7</b>	<b>18.3</b>	<b>17.2</b>	<b>16.3</b>	<b>15.8</b>	<b>15.5</b>

Source: Company, Emkay Research; \*Represents merged numbers of HDFCB and eHDFCL from 2QFY24

## HDFC Bank : Consolidated Financials and Valuations

### Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	12,77,531	16,15,856	27,65,180	31,16,678	35,20,201
Interest Expense	5,57,435	7,47,433	16,20,101	17,70,197	19,26,493
<b>Net interest income</b>	<b>7,20,096</b>	<b>8,68,422</b>	<b>11,45,079</b>	<b>13,46,481</b>	<b>15,93,708</b>
NII growth (%)	11.0	20.6	31.9	17.6	18.4
Other income	2,95,099	3,12,148	5,05,323	5,51,632	6,49,958
<b>Total Income</b>	<b>10,15,195</b>	<b>11,80,571</b>	<b>16,50,401</b>	<b>18,98,113</b>	<b>22,43,666</b>
Operating expenses	3,74,422	4,76,521	6,26,179	7,37,650	8,63,615
<b>PPOP</b>	<b>6,40,773</b>	<b>7,04,050</b>	<b>10,24,222</b>	<b>11,60,462</b>	<b>13,80,051</b>
PPOP growth (%)	11.7	9.9	45.5	13.3	18.9
<b>Core PPOP</b>	<b>6,17,947</b>	<b>7,15,361</b>	<b>9,13,469</b>	<b>10,91,928</b>	<b>13,12,338</b>
Provisions & contingencies	1,50,618	1,19,197	1,79,415	1,64,304	1,92,273
<b>PBT</b>	<b>4,90,155</b>	<b>5,84,853</b>	<b>8,44,807</b>	<b>9,96,158</b>	<b>11,87,778</b>
Extraordinary items	0	0	0	0	0
Tax expense	1,20,541	1,43,766	1,68,961	2,44,059	3,00,508
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>3,69,614</b>	<b>4,41,087</b>	<b>6,75,846</b>	<b>7,52,100</b>	<b>8,87,270</b>
PAT growth (%)	18.8	19.3	53.2	11.3	18.0
<b>Adjusted PAT</b>	<b>3,69,614</b>	<b>4,41,087</b>	<b>6,75,846</b>	<b>7,52,100</b>	<b>8,87,270</b>
<b>Diluted EPS (Rs)</b>	<b>66.3</b>	<b>78.7</b>	<b>102.0</b>	<b>98.5</b>	<b>116.2</b>
Diluted EPS growth (%)	17.8	18.6	29.6	(3.4)	18.0
<b>DPS (Rs)</b>	<b>15.5</b>	<b>19.1</b>	<b>22.5</b>	<b>21.0</b>	<b>24.0</b>
<b>Dividend payout (%)</b>	<b>23.3</b>	<b>24.0</b>	<b>21.9</b>	<b>21.2</b>	<b>20.5</b>
Effective tax rate (%)	24.6	24.6	20.0	24.5	25.3
Net interest margins (%)	3.9	4.1	3.6	3.6	3.7
Cost-income ratio (%)	36.9	40.4	37.9	38.9	38.5
Shares outstanding (mn)	5,545.5	5,579.7	7,592.5	7,592.5	7,592.5

Source: Company, Emkay Research

### Asset quality and other metrics

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	1,61,409.3	1,80,190.0	3,09,244.2	3,51,770.9	4,02,802.9
Net NPLs	44,076.7	43,684.2	77,311.1	94,978.1	1,12,784.8
GNPA ratio (%)	1.2	1.1	1.2	1.2	1.2
NNPA ratio (%)	0.3	0.3	0.3	0.3	0.3
Provision coverage (%)	72.7	75.8	75.0	73.0	72.0
Gross slippages	2,68,614.3	2,45,363.1	3,95,300.3	4,25,266.6	5,10,320.0
Gross slippage ratio (%)	1.9	1.5	1.6	1.5	1.5
LLP ratio (%)	1.2	0.8	0.8	0.7	0.7
NNPA to networth (%)	1.8	1.5	1.7	1.9	2.0
<b>Capital adequacy</b>					
Total CAR (%)	18.9	19.3	18.3	18.0	17.7
Tier-1 (%)	17.9	17.1	17.8	17.4	17.3
CET-1 (%)	16.7	16.4	17.0	16.9	16.7
RWA-to-Total Assets (%)	65.4	64.3	65.0	65.0	65.0
<b>Miscellaneous</b>					
Total income growth (%)	7.7	22.6	69.6	12.2	13.7
Opex growth (%)	14.4	27.3	31.4	17.8	17.1
Core PPOP growth (%)	15.5	15.8	27.7	19.5	20.2
PPOP margin (%)	40.7	36.5	31.3	31.6	33.1
PAT/PPOP (%)	57.7	62.7	66.0	64.8	64.3
LLP-to-Core PPOP (%)	24.4	16.7	19.6	15.0	14.7
Yield on advances (%)	7.9	8.6	10.9	9.3	9.1
Cost of funds (%)	3.5	3.9	6.2	5.2	4.9

Source: Company, Emkay Research

### Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,546	5,580	7,593	7,593	7,593
Reserves & surplus	23,95,384	27,96,410	42,91,230	48,83,887	55,88,937
<b>Net worth</b>	<b>24,00,929</b>	<b>28,01,990</b>	<b>42,98,822</b>	<b>48,91,479</b>	<b>55,96,530</b>
Deposits	1,55,92,174	1,88,33,946	2,38,51,090	2,88,32,464	3,51,86,436
Borrowings	18,48,172	23,17,656	74,68,516	78,25,442	72,25,807
<b>Interest bearing liab.</b>	<b>1,74,40,346</b>	<b>2,11,51,602</b>	<b>3,13,19,606</b>	<b>3,66,57,906</b>	<b>4,24,12,243</b>
<b>Other liabilities &amp; prov.</b>	<b>8,44,075</b>	<b>7,07,212</b>	<b>8,59,580</b>	<b>8,92,240</b>	<b>10,62,846</b>
<b>Total liabilities &amp; equity</b>	<b>2,06,85,351</b>	<b>2,46,60,805</b>	<b>3,64,78,008</b>	<b>4,24,41,626</b>	<b>4,90,71,618</b>
Net advances	1,36,88,209	1,60,05,859	2,52,71,314	2,90,71,941	3,37,31,313
Investments	45,55,357	51,70,014	71,84,758	83,08,015	95,23,066
Cash, other balances	15,23,269	19,37,651	18,79,176	25,66,053	29,68,857
<b>Interest earning assets</b>	<b>1,97,66,835</b>	<b>2,31,13,524</b>	<b>3,43,35,248</b>	<b>3,99,46,009</b>	<b>4,62,23,236</b>
Fixed assets	60,837	80,165	1,21,443	1,30,465	1,40,350
Other assets	8,57,678	14,67,125	20,21,317	23,65,152	27,08,033
<b>Total assets</b>	<b>2,06,85,351</b>	<b>2,46,60,815</b>	<b>3,64,78,008</b>	<b>4,24,41,626</b>	<b>4,90,71,618</b>
BVPS (Rs)	434.2	503.7	566.2	644.3	737.1
Adj. BVPS (INR)	428.3	497.8	548.0	624.3	715.4
Gross advances	0	1,61,42,365	2,55,03,247	2,93,28,734	3,40,21,331
Credit to deposit (%)	87.8	85.0	106.0	100.8	95.9
CASA ratio (%)	48.2	44.4	37.6	35.5	34.5
Cost of deposits (%)	3.4	3.6	5.1	4.7	4.5
Loans-to-Assets (%)	66.2	64.9	69.3	68.5	68.7
Net advances growth (%)	20.8	16.9	57.9	15.0	16.0
Deposit growth (%)	16.8	20.8	26.6	20.9	22.0
Book value growth (%)	17.2	16.0	12.4	13.8	14.4

Source: Company, Emkay Research

### Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	22.7	19.2	16.7	15.0	12.8
P/B (x)	3.5	3.0	2.6	2.3	2.0
P/ABV (x)	3.5	3.0	2.7	2.4	2.1
P/PPOP (x)	13.1	12.0	11.2	9.9	8.3
Dividend yield (%)	0.9	1.1	1.3	1.3	1.4
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.8	3.8	3.3	3.4	3.5
Other income	1.5	1.4	1.7	1.4	1.4
Fee income	1.0	1.1	0.9	0.9	0.9
Opex	2.0	2.1	2.0	1.9	1.9
<b>PPOP</b>					
Core PPOP	3.2	3.2	3.0	2.8	2.9
Provisions	0.8	0.5	0.6	0.4	0.4
Tax expense	0.6	0.6	0.6	0.6	0.7
<b>RoA (%)</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>1.9</b>
Leverage ratio (x)	8.6	8.7	8.1	8.6	8.7
<b>RoE (%)</b>	<b>16.7</b>	<b>17.0</b>	<b>16.0</b>	<b>16.4</b>	<b>16.9</b>

### Quarterly data

Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	2,78,279	2,86,733	2,89,286	2,73,852	2,84,713
NIM(%)	4.3	4.3	4.0	3.6	3.6
PPOP	2,40,059	2,44,573	2,64,709	2,26,939	2,36,473
PAT	1,59,503	1,64,730	1,81,563	1,59,761	1,63,725
EPS (Rs)	21.98	21.59	21.37	28.57	29.28

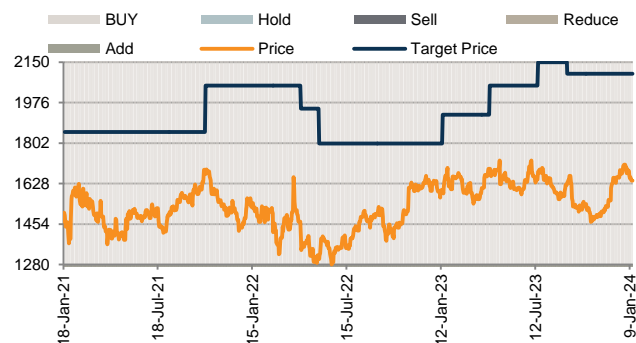
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
30-Nov-23	1,559	2,100	Buy	Anand Dama
17-Oct-23	1,541	2,100	Buy	Anand Dama
19-Sep-23	1,629	2,100	Buy	Anand Dama
11-Sep-23	1,632	2,100	Buy	Anand Dama
17-Jul-23	1,679	2,150	Buy	Anand Dama
25-May-23	1,610	2,050	Buy	Anand Dama
24-Apr-23	1,688	2,050	Buy	Anand Dama
15-Apr-23	1,692	2,050	Buy	Anand Dama
09-Mar-23	1,631	1,925	Buy	Anand Dama
15-Jan-23	1,601	1,925	Buy	Anand Dama
04-Jan-23	1,610	1,800	Buy	Anand Dama
16-Oct-22	1,439	1,800	Buy	Anand Dama
04-Oct-22	1,453	1,800	Buy	Anand Dama
17-Jul-22	1,362	1,800	Buy	Anand Dama
01-Jun-22	1,395	1,800	Buy	Anand Dama
23-May-22	1,304	1,800	Buy	Anand Dama
18-Apr-22	1,395	1,950	Buy	Anand Dama
05-Apr-22	1,608	2,050	Buy	Anand Dama
04-Apr-22	1,657	2,050	Buy	Anand Dama
16-Jan-22	1,545	2,050	Buy	Anand Dama
04-Jan-22	1,529	2,050	Buy	Anand Dama
17-Oct-21	1,687	2,050	Buy	Anand Dama
05-Oct-21	1,595	1,850	Buy	Anand Dama
18-Jul-21	1,522	1,850	Buy	Anand Dama
18-Apr-21	1,429	1,850	Buy	Anand Dama
05-Apr-21	1,450	1,850	Buy	Anand Dama
20-Jan-21	1,492	1,850	Buy	Anand Dama
17-Jan-21	1,467	1,850	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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<b>SELL</b>	<15% downside

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