



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

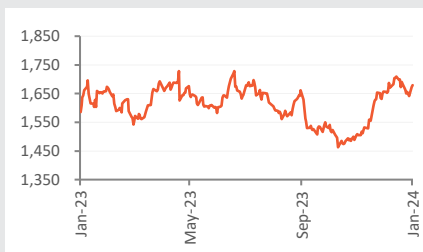
Company details

Market cap:	Rs. 12,74,740 cr
52-week high/low:	Rs. 1758 / 1460
NSE volume: (No of shares)	184 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	751.7 cr

Shareholding (%)

Promoters	-
FII	52.3
DII	30.8
Others	16.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.3	9.7	2.1	5.9
Relative to Sensex	-1.0	-0.6	-8.6	-15.4

Sharekhan Research, Bloomberg

HDFC Bank Ltd

Core performance below expectations

Banks	Sharekhan code: HDFCBANK			
Reco/View: Buy	↔	CMP: Rs. 1,679	Price Target: Rs. 1,900	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- HDFC Bank reported PAT at Rs. 16,373 crore, beating consensus and our estimates by 4% and 2%, respectively, mainly led by write-back of tax provisions amounting to ~Rs. 1,500 crore from a favourable tax order.
- However, core operating performance remained below expectations as NIMs (based on IEA) were stable q-o-q at 3.6% vs. expectation of improvement (~5-10 bps) due to the release of excess liquidity as regulation on ICRR has now been withdrawn.
- We believe NIMs have bottomed out, but NIM progression would be the key focus area in the near to medium term. Liability-side transition is also important to track as the CD ratio continues to remain elevated compared to the industry and retail deposit growth continues to remain challenging.
- We believe the bank would have to slow down loan growth in the near term to navigate the liability-side transition. However, we remain constructive on the bank with mid to long-term perspective. The stock trades at 2.2x/1.9x its FY2025E/FY2026E core BV estimates. We maintain Buy with an unchanged PT of Rs. 1,900.

HDFC Bank reported Q3FY2024 numbers where core operating performance was below estimates. Numbers on a y-o-y numbers are not comparable as this is the second quarter reported after the merger. Net interest income (NII) grew 4% q-o-q, 5% below our expectations as NIMs (based on IEA) were stable q-o-q at 3.6% vs. expectation of improvement due to the release of excess liquidity as regulation on ICRR has now been withdrawn. We should see margins gradually recouping as the bank substitutes the high-cost bonds with deposits, changes the loan mix towards retail high-yielding assets, and increases CASA share over the next couple of quarters. Core fee income was flat q-o-q. Total operating expenses grew 4% q-o-q (marginally lower than expectations). Thus, operating profit (PPoP) grew 4% q-o-q. Annualised core credit cost stood at 49 bps, stable q-o-q. However, the bank made additional contingent provisions of Rs. 1,220 crore pertaining to investments in AIF. It currently has total contingency and floating provisions amounting to Rs. 16,620 crore (~0.7% of net advances). Thus, PBT declined 2% q-o-q. PAT grew 3% q-o-q on account of write-back of tax provisions. Gross advances net of IBPC/BRDS grew by 5% q-o-q. Retail (ex-mortgages) grew 2.7% q-o-q, Mortgages grew 3.6% q-o-q, Commercial & rural banking, and corporate loans (ex. non-individual loans of erstwhile HDFC Ltd.) grew ~6.7% q-o-q and ~1.9% q-o-q, respectively. Non-individual loans of erstwhile HDFC Ltd. declined 3.8% q-o-q. Total deposit mobilisation slowed, growing 1.9% q-o-q due to the reduction in wholesale deposits. Retail deposits grew 2.9% q-o-q. CASA ratio now stands at 37.9%. Asset quality improved q-o-q with GNPA/ NNPA ratio reported at 1.26%/0.31% vs. 1.34%/0.35% q-o-q. PCR at 75% vs. 74% q-o-q. Net slippages were at Rs. 2,500 crore vs. Rs. 3,300 crore q-o-q.

Key positives

- Lower core credit cost sustained (~49 bps).
- Contingent and floating provision buffers stand at 70 bps of net advances.

Key negatives

- Retail deposit accretion was lower at Rs. 53,000 crore during the quarter vs. expectations of Rs. 75,000-80,000 crore.
- NIMs were stable vs. expectations of 5-10 bps improvement.

Management Commentary

- The bank's focus is on higher deposit mobilisation through branch expansion and building new liability relationships. Offering the higher rate would not be a driver for mobilisation. The bank believes it can garner 18-20% incremental share in deposits.
- CD ratio is expected to come down gradually. Going forward, deposit growth is expected to outpace loan growth.
- The bank is targeting 800-1,000 branches in FY2024 vs. earlier guided for 1,500 branches.

Our Call

Valuation: We maintain our Buy rating on the stock with an unchanged TP of Rs. 1,900: The stock currently trades at 2.2x/1.9x its FY2025E/FY2026E core BV estimates. The key challenge remains at this point of time is CD ratio is higher (c. 110%) than the industry. We believe loan growth is expected to be in low mid-teens in the near term and deposit growth should outpace loan growth by 300-400 bps, which should bring the CD ratio to a normalised level gradually. We retain our Buy rating on the stock with an unchanged price target (TP) of Rs. 1,900, as valuations are reasonable and have priced in all the barring factors that could weigh down the earnings trajectory of the merged entity. Key monitorable remains NIM progression and retail deposit mobilisation.

Key Risks

Slower deposit mobilisation; economic slowdown; tech outage.

Valuation (standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	72,010	1,06,090	1,18,841	1,51,457	1,76,124
Net profit	36,962	60,348	64,205	78,751	88,086
EPS (Rs.)	66.3	85.9	91.4	107.5	120.3
P/E (x)	22.5	17.4	16.3	13.9	12.4
P/BV (x)	3.4	2.7	2.5	2.2	1.9
RoE	16.7	18.5	14.8	16.0	15.3
RoA	1.9	2.3	1.9	2.0	2.0

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **NIMs were lower than expectations:** Net interest income (NII) grew 4% q-o-q, was 5% below our expectations as NIM (based on IEA) was stable q-o-q at 3.6% vs. expectation of improvement (5-10 bps) due to the release of excess liquidity as regulation on ICRR has now been withdrawn. Margins should also improve gradually as high-cost wholesale funding of HDFC Ltd. gets replaced with retail funding (CASA and retail deposits) and improving loan mix towards other retail high-yielding segments over the next couple of quarters.
- ♦ **Asset-quality stable:** Asset quality improved q-o-q with GNPA/NNPA ratio reported at 1.26%/0.31% vs. 1.34%/0.35% q-o-q. PCR stood at 75% vs. 74% q-o-q. Net slippages were at Rs. 2,500 crore vs. Rs. 3,300 crore q-o-q. The bank does not foresee any incremental pressure on asset quality. Core credit costs stood at 49 bps stable q-o-q. However, the bank made additional contingent provisions of Rs. 1,220 crore on investments in AIF. Total unutilised contingent provisions stood at 0.7% of advances.
- ♦ **Strong loan growth:** Gross advances net of IBPC/BRDS grew 5% q-o-q. Retail (ex-mortgages) grew by 2.7% q-o-q, Mortgages grew 3.6% q-o-q, Commercial & rural banking, and corporate loans (ex. non-individual loans of erstwhile HDFC Ltd.) grew by ~6.7% q-o-q and ~1.9% q-o-q, respectively. Non individual loans of erstwhile HDFC Ltd. declined 3.8% q-o-q. Domestic economic activity remains robust and there is no slowdown in demand. LCR during the quarter was 110% versus 121% in the last quarter.
- ♦ **Deposit mobilisation remains the key monitorable:** Total deposit mobilisation slowed, growing 1.9% q-o-q due to the reduction in wholesale deposits. Retail deposits grew 2.9% q-o-q. CASA ratio now stands at 37.9%. For faster deposit mobilisation, the focus is on branch expansion, building new liability relationships with existing customers, and focusing more on term deposits as penetration is lower. The bank added 2.2 million new liability relationships during the quarter.

Results (standalone)					Rs cr
Particulars	3QFY24	3QFY23	2QFY24	Y-o-Y	Q-o-Q
Interest Inc.	70,583	42,708	67,698	65.3%	4.3%
Interest Expenses	42,111	19,720	40,313	113.5%	4.5%
Net Interest Income	28,471	22,988	27,385	23.9%	4.0%
NIM (%)	3.60	4.30	3.60	-16.3%	0.0%
Core Fee Income	6,940	6,053	6,936	14.7%	0.1%
Other Income	4,197	2,447	3,772	71.5%	11.3%
Net Income	39,608	31,488	38,093	25.8%	4.0%
Employee Expenses	5,352	4,126	5,170	29.7%	3.5%
Other Opex	10,609	8,337	10,229	27.3%	3.7%
Total Opex	15,961	12,464	15,399	28.1%	3.6%
Cost to Income Ratio	40.3%	39.6%	40.4%		
Pre-Provision Profit	23,647	19,024	22,694	24.3%	4.2%
Provisions & Contingencies - Total	4,217	2,806	2,903	50.2%	45.3%
Profit Before Tax	19,431	16,218	19,791	19.8%	-1.8%
Tax	3,058	3,958	3,814	-22.7%	-19.8%
Effective Tax Rate	16%	24%	19%		
Reported Profit	16,373	12,259	15,977	33.5%	2.5%
Basic EPS (Rs.)	21.6	22.0	21.1	-1.9%	2.1%
Diluted EPS (Rs.)	21.5	21.9	21.0	-1.8%	2.2%
RoA (%)	2.0	2.2	2.0		
Advances	24,46,076	15,06,809	23,31,233	62.3%	4.9%
Deposits	22,13,977	17,33,204	21,72,858	27.7%	1.9%
Gross NPA	31,012	18,764	31,578	65.3%	-1.8%
Gross NPA Ratio (%)	1.26	1.23	1.34		
Net NPA	7,664	5,024	8,073	52.5%	-5.1%
Net NPAs Ratio (%)	0.31	0.33	0.35		
PCR - Calculated	75.3%	73.2%	74.4%		

Source: Company data, Sharekhan research. Note y-o-y numbers are not comparable

Outlook and Valuation

■ Sector View – Deposit mobilisation to be in focus; banks with a superior liability franchise placed better

System-level credit offtake grew by ~20% y-o-y in the fortnight ending December 22, 2023, indicating loan growth has been sustaining, given distinct signs of an improving economy, revival of investments, and strong demand. On the other hand, deposits rose by ~13%. The gap between advances and deposits growth has again widened. We are seeing strong traction in loan growth and overall deposit growth is challenging and is mainly led by time deposits rather than CASA. Margins are expected to be lower as deposits get repriced at higher costs to fund growth. Overall asset-quality outlook is stable to positive for the sector. We believe banks with a robust capital base and strong retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – Execution is key

Improvement in NIM profile, strong retail deposit mobilisation resulting in the normalisation of CD ratio in turn leading to a sustainable loan growth path, building strong reach and distribution, broadening customer base, and enabling technology remain key monitorables in the near term. The bank has a good track record of strong execution capabilities, has consistently delivered superior performance, and its track record is unmatched across the sector.

■ Valuation – We maintain our Buy rating on the stock with an unchanged TP of Rs. 1,900

The stock currently trades at 2.2x/1.9x its FY2025E/FY2026E core BV estimates. The key challenge remains that at this point of time is CD ratio is higher (c. 110%) than the industry. We believe loan growth is expected to be in low mid-teens in the near term and deposit growth should outpace loan growth by 300-400 bps, which should bring the CD ratio to a normalised level gradually. We retain our Buy rating on the stock with an unchanged TP of Rs. 1,900, as valuations are reasonable and have priced in all the barring factors that could weigh down the earnings trajectory of the merged entity. Key monitorable remains NIM progression and retail deposit mobilisation.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HDFC Bank	1,679	12,74,740	16.3	13.9	2.5	2.2	14.8	16.0	1.9	2.0
ICICI Bank	1,009	7,07,945	15.8	15.0	2.6	2.2	17.7	15.8	2.3	2.1

Source: Company, Sharekhan estimates

About company

HDFC Bank is the largest private sector bank with a pan-India presence. The bank has been designated by the Reserve Bank of India (RBI) as a domestic systemically important bank (D-SIB), underlining its importance in the financial system. The bank's loan book is well balanced between retail and wholesale loans. As a business entity, HDFC Bank continues to deliver steady performance with well-maintained margins and conservative asset-quality performance. HDFC Bank and HDFC Limited have successfully completed one of India's largest financial services mergers. Now the merged entity is looking to work through the opportunities immediately.

Investment theme

HDFC Bank has consistently reported healthy return ratios and earnings growth over the years across various credit/interest rate cycles and has been able to maintain its asset quality, which is indicative of its strong business franchise strength and leadership qualities. The merged entity is looking to work through the opportunities immediately and the bank has already started its expansion journey with accelerated investments in the branch and distribution network and technology etc. This would continue and would help in gaining sustained loan and deposit market share over the medium term.

Key Risks

Slower deposit mobilisation; economic slowdown; tech outage.

Additional Data

Key management personnel

Sashidhar Jagdishan	Managing Director and CEO
Kaizad Bharucha	Deputy MD
Srinivasan Vaidyanathan	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	4.81
2	Life Insurance Corp of India	4.49
3	The Vanguard Group Inc.	2.98
4	FMR LLC	2.48
5	The Capital Group Cos Inc.	2.45
6	Republic of Singapore	2.01
7	HDFC Asset Management Co. Ltd.	1.88
8	BlackRock Inc.	1.64
9	UTI Asset Management Co. Ltd.	1.59
10	ICICI Prudential Asset Management	1.47

Source: Bloomberg data

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.