

# HDFC BANK LIMITED

Pressure on CDR and LCR; deposit growth will be keenly watched

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## Price Analysis

HDFC Bank reported mixed operating performance in 3QFY24. The slippages decreased by 10% sequentially aided by stable recoveries and upgrades, which resulted in improved GNPA ratio at 1.26%. The reported GNPA is below the historical trend of 1.4%. Furthermore, the contingent stands adequate. In 2QFY24, the provisioning expenses were higher sequentially at ₹42.2bn (v/s ₹29.1bn 2QFY24). At the same time NII growth was tepid sequentially (23.9% YoY, 4% QoQ) against the loan growth (62.3% YoY, 4.9% QoQ, merger impact). The bank reported NIMs stable at 3.6%. A stable opex (C/I ratio: 40.3%) and stable NII growth led to sequential improvement in PPOP. Thus, the bank has reported sequential increase in PAT by 2.5% along with ROA/ROE of 1.96%/15.5%. We expect marginal reduction in ROA/ROE for FY24E owing to higher C/I ratio and margin pressure. Nevertheless, we believe, a superior underwriting practices, adequate coverage and strong capital position makes the bank well placed and thus, we recommend BUY with price target of ₹1762.

## Gazing the core

**ROA stable for the quarter:** The bank's NII stood at ₹285bn; grew by 23.9% YoY and 4.9% sequentially owing to higher COF of 4.9% v/s 4.8% sequentially. The banks reported NIMs steady sequentially at 3.6% (However, below the pre-merger historical trend of 4.1%). Around 21% of balance sheet is from borrowings which was used to be at ~8%. Hence replacing these with low cost deposits and debentures could drive margin improvement overtime. The AUM mix towards high yield loans could be the margin enhancer. Furthermore, in 3QFY24, the fee income grew by 4.7% QoQ. Other income were up by 4% QoQ. The treasury income includes gain from sale of Bandhan Bank stake. PPOP grew by 24.2% YoY and 4.2% sequentially driven by 4% sequential NII growth, bulky treasury gain and stable opex (C/I ratio: 40.3%). The bank's Provisioning Expense stood sequentially higher at ₹42.2bn v/s ₹29.1bn in 2QFY24.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	648,796	720,096	868,422	1,093,297	1,444,282
Operating Profit	573,618	640,773	704,050	914,153	1,168,240
Reported Profits	311,165	369,614	441,087	617,928	761,672
Net Worth	2,037,208	2,400,929	2,801,990	4,627,598	5,389,270
Loan & Advances	11,328,366	13,688,209	16,005,859	25,609,374	30,475,156
Int. Bearing Liabilities	14,705,475	17,440,346	20,901,602	30,063,599	35,321,103

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.1	3.9	4.1	3.8	3.9
C/I Ratio	36.3	36.9	40.4	40.3	38.8
Gross NPA Ratio	1.3	1.2	1.1	1.2	1.2
PCR (%)	69.8	72.7	75.8	75.3	76.7
Adj. RoA Ratio	1.9	1.9	1.9	2.0	1.9
Adj. RoE Ratio	16.6	16.7	17.0	16.6	15.2

Rating	BUY
Current Market Price (₹)	1,504
12 M Price Target (₹)	1,762
Potential upside (%)	17

## Stock Data

Sector:	Banking
FV (₹):	1
Market Cap Full (₹ bn):	11,424
Market Cap Free Float (₹ bn):	11,296
52-Week High / Low (₹):	1,758 / 1,460
BSE Code / NSE Symbol:	500180 / HDFCBANK
Bloomberg:	HDFCB IN

## Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	0.00	0.00	25.52	25.59
FPIs	52.30	52.13	33.36	32.22
MFs	19.45	19.71	17.60	18.47
Insurance	9.07	8.74	7.63	8.01
Others	19.18	19.42	15.89	15.71

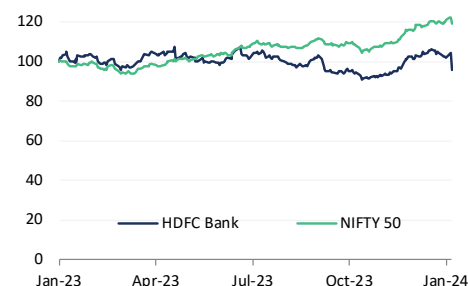
Source: BSE

## Price Performance (%)

(%)	1M	3M	6M	12M
HDFC Bank	-7.2%	-0.2%	-8.4%	-4.4%
Nifty 50	0.5%	8.9%	9.4%	19.5%

\* To date / current date : January 17, 2024

## HDFC Bank vs Nifty 50



The provisioning expenses includes the contingent provision of ₹12.2bn pertaining towards AIF exposure. Core credit cost stable at 0.49%. The bank has reported a PAT of ₹163.7bn; up 33.5% YoY and 2.5% sequentially. ROA and ROE stood down to 1.96% (v/s 2.0% in 2QFY24) and 15.5% (v/s 15.8% in 2QFY24) respectively.

**CDR and LCR are disappointing:** The banks (post – merger) net advances stood at ₹24.5tn; grew 4.9% QoQ. Loan Mix carries: Retail (including business banking): 66%, Corporate (including overseas): 34%. The bank's deposit (consolidated) stood at ~₹22.1tn; grew 1.9% sequentially. The current quarter CDR at 110.5%. CDR, after removing merger effect would be 89%; whereas the bank's historical CDR range of 87% - 89%. There is expectation of CDR to go down progressively over several quarters. Hence deposit growth should be ~300bps addition to credit growth. The bank is confident to improve CASA ratio to long term average of ~42% against 38% as of 3QFY24. The bank's CRAR stood at 18.39% with CET-1 of 16.3%. Tier 2 CRAR weakened to 1.59% v/s 1.74% in 2QFY24. The bank is adequately capitalized and sees no further dilution. The bank's RWA to total asset stood at 68% and LCR weakens to 110%. The system liquidity had been positive since 1QFY20 and it was in negative territory for entire 3QFY24.

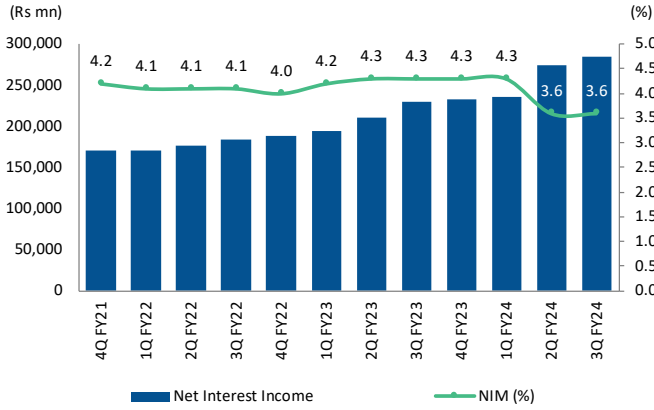
**Credit quality overwhelming:** The GNPA/NNPA/PCR of merged entity stood at 1.26%/0.31%/75% v/s 1.34%/0.35%/74% in the previous quarter. Additionally, the slippage ratio (calculated) of merged entity stood at 0.44% down sequentially from 0.46% of standalone bank in the previous quarter. The historical slippages ratio range is 1.5% - 2%. The upgrades and recoveries were ₹45bn stable comparing previous quarter. In 2QFY24, the bank has reported higher provisioning expenses of ₹42bn; up by 45.2% sequentially driven by provision of ₹12.2bn pertaining to investments in AIF. PCR (calculated) stable at 75% and it is in line with the historical trend. Along with cumulative provision of ~₹233bn, the bank also held floating provisions of ₹15bn and contingent provision of ₹139bn. Total Provision (Specific + Floating + Contingent + General) stood at 159% of GNPLs. The additional (COVID + contingent) provision stood 1.06% of the book.

### Outlook and Valuation

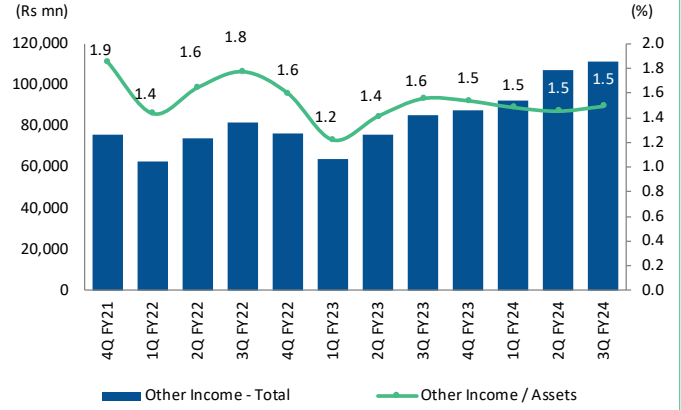
HDFC Bank is expected to overcome the merger overhangs gradually led by 1) healthy balance sheet growth, 2) much higher provision than regulatory requirement in the balance sheet, 3) best in class underwriting and risk management practices. Given these strengths we expect HDFC Bank to remain one of the best among all the lending business. Thus, we continue to maintain BUY on the bank with revised target price of ₹1762.

Quarterly story in charts

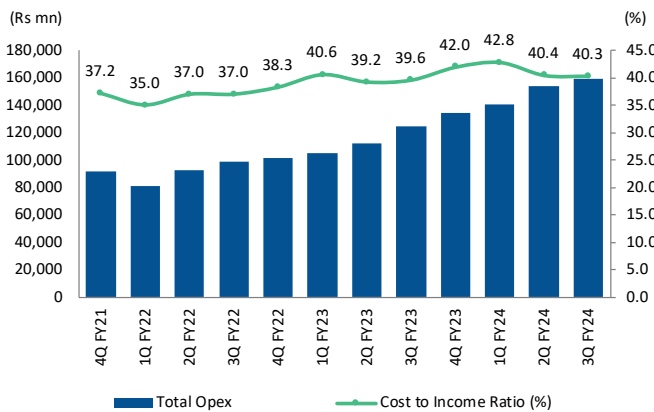
**NII Trend**



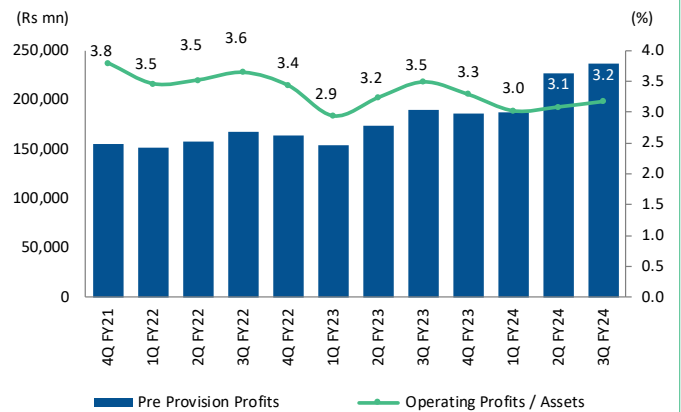
**Other income trend**



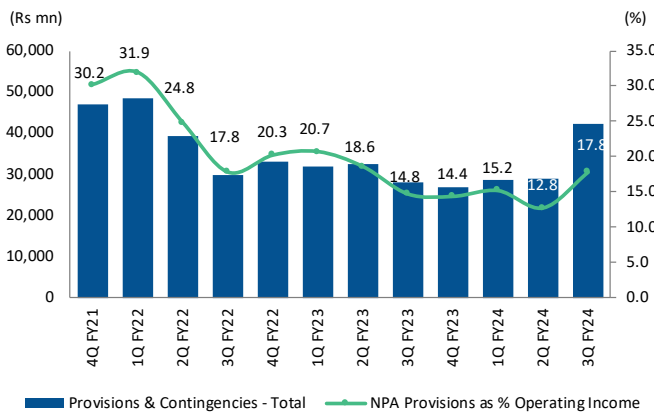
**Total Opex Trend**



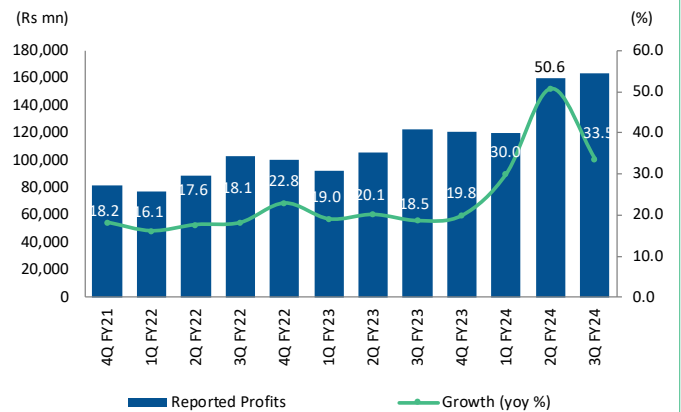
**Pre Provision Profit trend**



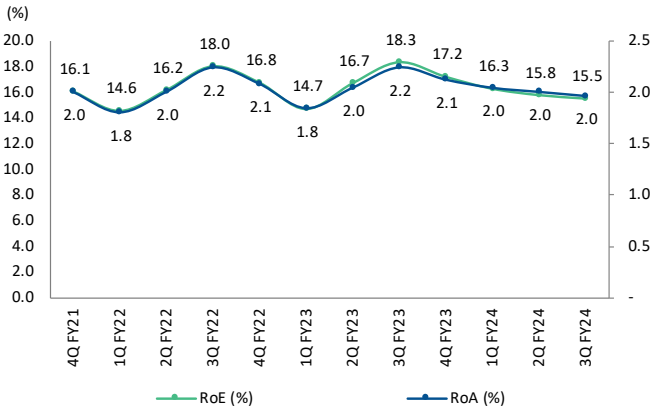
**Provision Expenses trend**



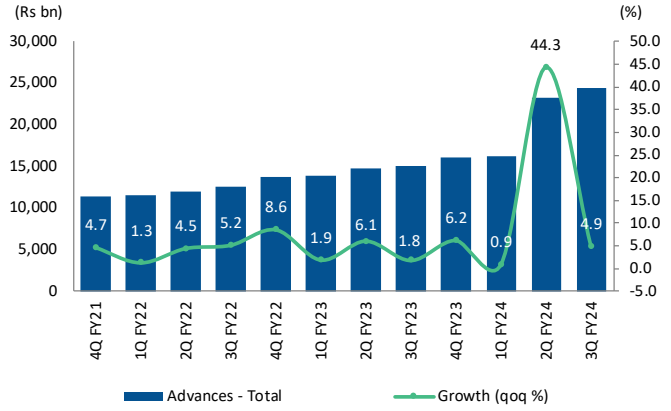
**Reported Profit trend**



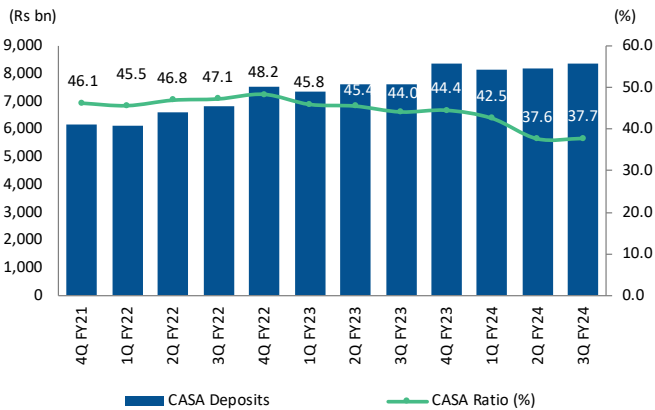
**Return Ratio trend**



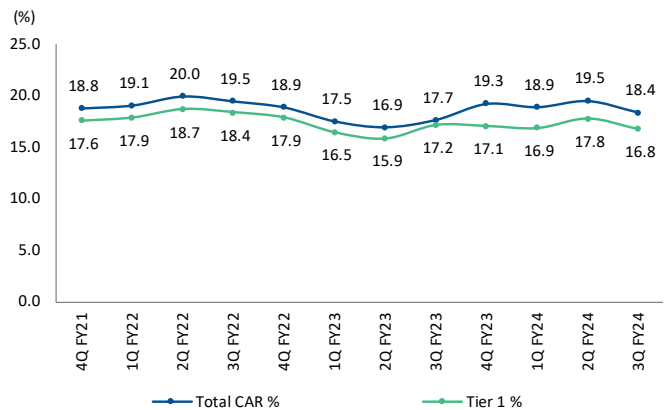
**Loan Book trend**



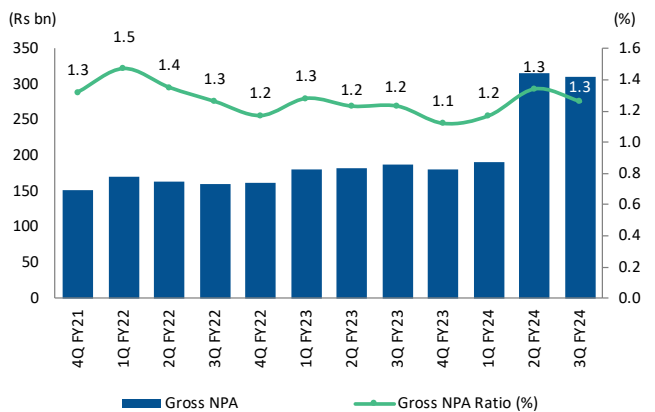
**CASA Deposit trend**



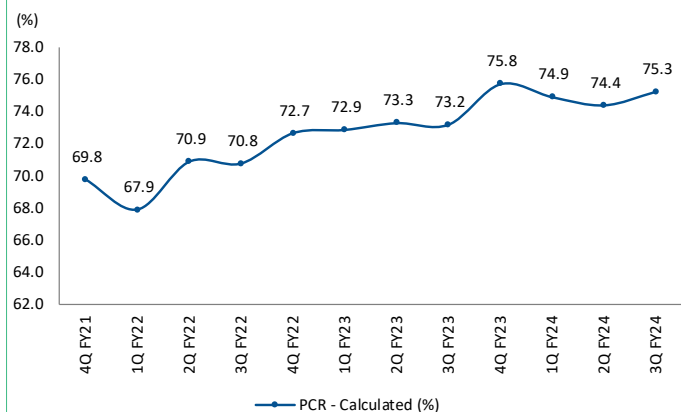
**CRAR and Tier 1 trend**



**Gross NPA trend**



**PCR trend**



## Recent Performance at a glance

## Exhibit 1 : Income Statement Analysis

(₹ mn)	3Q FY24	3Q FY23	% yoy / bps	2Q FY24	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	705,826	427,078	65.3	676,984	4.3	1,615,856	1,277,531	26.5
Interest Expenses	421,113	197,199	113.5	403,132	4.5	747,433	557,435	34.1
Net Interest Income	284,713	229,878	23.9	273,852	4.0	868,422	720,096	20.6
NII to Net Operative Income	71.9	73.0	(112)	71.9	(1)	73.6	70.9	263
NIM (%)	3.60	4.3	(70)	3.6	-	4.1	3.9	13
Other Income - Total	111,370	84,998	31.0	107,078	4.0	312,148	295,099	5.8
Other Income to Net Operative Income	28.1	27.0	112	28.1	1	26.4	29.1	(263)
Net Operating Revenue	396,084	314,877	25.8	380,931	4.0	1,180,571	1,015,195	16.3
Employee Expenses	53,518	41,262	29.7	51,702	3.5	155,124	120,317	28.9
Other Opex	106,093	83,374	27.3	102,290	3.7	321,397	254,105	26.5
Total Opex	159,611	124,636	28.1	153,992	3.6	476,521	374,422	27.3
Cost to Income Ratio (%)	40.3	39.6	71	40.4	(13)	40.4	36.9	348
Pre Provision Profits	236,473	190,241	24.3	226,939	4.2	704,050	640,773	9.9
Provisions & Contingencies - Total	42,166	28,064	50.2	29,038	45.2	119,197	150,618	(20.9)
NPA Provisions as % Operating Income	17.8	14.8	308	12.8	504	16.9	23.5	(658)
Profit Before Tax	194,307	162,176	19.8	197,901	(1.8)	584,853	490,155	19.3
Tax	30,581	39,581	(22.7)	38,139	(19.8)	143,766	120,541	19.3
Effective Tax Rate (%)	15.7	24.4	(867)	19.3	(353)	24.6	24.6	(1)
Reported Profits	163,725	122,595	33.5	159,761	2.5	441,087	369,614	19.3
RoA (%)	2.0	2.2	(28)	2.0	(4)	1.9	1.9	1
RoE (%)	15.5	18.3	(282)	15.8	(27)	17.0	16.7	30

Source: Company, LKP Research

## Exhibit 2 : Balance Sheet Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Net Worth	2,541,114	2,675,424	2,801,990	2,938,146	4,050,298	4,222,998	4.3	57.8
RoE (%)	16.7	18.3	17.2	16.3	15.8	15.5	(27)	(282)
Tier 1 %	15.9	17.2	17.1	16.9	17.8	16.8	(100)	(40)
Total CAR %	16.9	17.7	19.3	18.9	19.5	18.4	(115)	73
RWA - Total	14,778,550	15,362,720	15,866,350	16,708,990	21,742,260	23,865,000	9.8	55.3
Advances - Total	14,798,732	15,068,093	16,005,859	16,156,720	23,312,329	24,460,757	4.9	62.3
Investments	5,191,159	5,272,767	5,170,014	5,657,776	7,234,359	6,749,314	(6.7)	28.0
Total Assets	22,278,934	22,953,053	24,660,815	25,016,930	34,163,102	34,926,389	2.2	52.2
RoA (%)	2.04	2.24	2.12	2.04	2.00	1.96	(4)	(28)
Deposits	16,734,080	17,332,040	18,833,947	19,130,958	21,728,578	22,139,770	1.9	27.7
CASA Deposits	7,596,960	7,629,510	8,359,890	8,129,540	8,177,050	8,357,000	2.2	9.5
CASA Ratio (%)	45.4	44.0	44.4	42.5	37.6	37.7	10	(630)
Interest Bearing Liabilities - Total	18,802,863	19,439,661	20,901,602	21,225,186	28,896,328	29,516,758	2.1	51.8

Source: Company, LKP Research

## Exhibit 3: Funding Profile Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Deposits	16,734,080	17,332,040	18,833,947	19,130,958	21,728,578	22,139,770	1.9	27.7
CASA Deposits	7,596,960	7,629,510	8,359,890	8,129,540	8,177,050	8,357,000	2.2	9.5
Saving Deposit	5,297,450	5,352,060	5,624,930	5,606,040	5,699,560	5,799,000	1.7	8.4
Current Deposit	2,299,510	2,277,450	2,734,960	2,523,500	2,477,490	2,558,000	3.2	12.3
Term Deposits	9,137,120	9,702,530	10,474,057	11,001,418	13,551,528	13,782,770	1.7	42.1
Borrowings	2,068,783	2,107,621	2,067,656	2,094,228	7,167,750	7,376,988	2.9	250.0
<b>Interest Bearing Liabilities - Total</b>	<b>18,802,863</b>	<b>19,439,661</b>	<b>20,901,602</b>	<b>21,225,186</b>	<b>28,896,328</b>	<b>29,516,758</b>	<b>2.1</b>	<b>51.8</b>

Source: Company, LKP Research

## Exhibit 4: Asset Quality Analysis

(₹ mn)	2Q FY23	3Q FY23	4Q FY23	1Q FY24	2Q FY24	3Q FY24	QoQ % / bps	YoY % / bps
Total Slippages	57,000	66,000	49,000	58,000	202,638	70,000	(65.5)	6.1
Slippages Ratio (%)	0.42	0.48	0.36	0.36	1.27	0.44	(83)	(4)
Gross NPA	183,010	187,639	180,190	190,641	315,779	310,117	(1.8)	65.3
Gross NPAs Ratio (%)	1.23	1.23	1.12	1.17	1.34	1.26	(8)	3
PCR - Calculated (%)	73.3	73.2	75.8	74.9	74.4	75.3	85	206
Net NPA	48,827	50,243	43,684	47,769	80,728	76,641	(5.1)	52.5
Net NPAs Ratio (%)	0.33	0.33	0.27	0.30	0.35	0.31	(4)	(2)
Standard Restructured	78,500	64,000	50,000	42,650	51,287	-	-	-
Std. Rest. Adv. as % of Advances	0.5	0.4	0.31	0.26	0.22	-	-	-

Source: Company, LKP Research

## Annual Projections

### Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Int. Income	1,208,582	1,277,531	1,615,856	2,595,234	3,423,923
Interest Expenses	559,787	557,435	747,433	1,501,936	1,979,641
Net Interest Income	648,796	720,096	868,422	1,093,297	1,444,282
<i>NIM (%)</i>	4.10	3.92	4.05	3.82	3.88
Other Income - Total	252,049	295,099	312,148	437,008	463,228
Net Operating Revenue	900,845	1,015,195	1,180,571	1,530,305	1,907,510
Employee Exp.	103,648	120,317	155,124	204,763	270,287
Other Opex	223,578	254,105	321,397	411,389	468,983
Total Opex	327,226	374,422	476,521	616,152	739,270
<i>C/I Ratio</i>	36.32	36.88	40.36	40.26	38.76
Pre Provision Profits	573,618	640,773	704,050	914,153	1,168,240
<i>PPP Growth (yoy %)</i>	17.7	11.7	9.9	29.8	27.8
Provisions & Contingencies - Total	157,029	150,618	119,197	141,743	158,065
<i>Credit Cost (As % of Op. AUM)</i>	1.24	1.00	0.66	0.70	0.50
Profit Before Tax	416,590	490,155	584,853	772,410	1,010,175
Tax	105,425	120,541	143,766	154,482	248,503
<i>Effective Tax Rate</i>	25.3	24.6	24.6	20.0	24.6
Reported Profits	311,165	369,614	441,087	617,928	761,672
<i>PAT Growth (yoy %)</i>	18.5	18.8	19.3	40.1	23.3

## Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5,513	5,546	5,580	7,593	7,593
Reserves (ex Revel. Reserve)	2,031,696	2,395,384	2,796,411	4,620,006	5,381,678
Net Worth - Ex Revaluation	2,037,208	2,400,929	2,801,990	4,627,598	5,389,270
Deposits	13,350,602	15,592,174	18,833,947	23,449,607	27,550,461
Borrowings	1,354,873	1,848,172	2,067,656	6,613,992	7,770,643
Interest Bearing Liabilities	14,705,475	17,440,346	20,901,602	30,063,599	35,321,103
Other Lia. & Prov.	726,022	844,075	957,223	1,562,109	1,959,625
<b>Total Liabilities</b>	<b>17,468,705</b>	<b>20,685,351</b>	<b>24,660,815</b>	<b>36,253,306</b>	<b>42,669,999</b>
<b>Assets</b>					
Cash & Cash Equivalent	1,194,704	1,523,269	1,937,651	1,780,440	2,102,896
Investments	4,437,283	4,555,357	5,170,014	6,762,260	7,759,322
Loan & Advances	11,328,366	13,688,209	16,005,859	25,609,374	30,475,156
<i>Growth (yoy %)</i>	<i>14.0</i>	<i>20.8</i>	<i>16.9</i>	<i>60.0</i>	<i>19.0</i>
Fixed Assets	49,093	60,837	80,166	105,941	137,805
Other Assets	459,259	857,678	1,467,125	1,995,290	2,194,819
<b>Total Assets</b>	<b>17,468,705</b>	<b>20,685,351</b>	<b>24,660,815</b>	<b>36,253,306</b>	<b>42,669,999</b>

## Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value (₹)	1	1	1	1	1
Adjusted Share O/S - For Calculation	5,513	5,546	5,580	7,593	7,593
Earnings Per Share	56.4	66.7	79.1	81.4	100.3
EPS (% YoY)	17.9	18.1	18.6	3.0	23.3
P/E (x)	27.2	23.1	19.4	18.9	15.3
Book Value	369.5	432.9	502.2	609.5	709.8
BVPS (% YoY)	18.5	17.2	16.0	21.4	16.5
P/BV (x)	4.2	3.5	3.1	2.5	2.2
Adj. BV	365.4	429.0	498.3	604.4	704.8
Adj. BV (% YoY)	18.4	17.4	16.2	21.3	16.6
P/ABV (x)	4.2	3.6	3.1	2.5	2.2



## Exhibit 8: Detail RoA Tree Analysis (%)

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Yields / Margins</b>					
Yield on Advance	8.9	7.9	8.6	10.0	10.0
Yield on Funds	7.6	7.0	7.5	9.1	9.2
Cost of Funds (CoF)	4.1	3.5	3.9	5.9	6.1
Interest Spread	3.6	3.5	3.6	3.2	3.1
NIM's	4.1	3.9	4.1	3.8	3.9
Interest Income / Assets	7.4	6.7	7.1	8.5	8.7
Interest Exp. / Assets	3.4	2.9	3.3	4.9	5.0
NII / Assets	4.0	3.8	3.8	3.6	3.7
Fee Income / Assets	1.0	1.0	0.9	0.9	0.8
Other Non Core Income / Assets	0.2	0.1	0.1	0.1	0.1
Other Income / Assets	1.5	1.5	1.4	1.4	1.2
Net Operating Income / Assets	5.5	5.3	5.2	5.0	4.8
<b>Operating Ratios</b>					
NII to Net Operative Income	72.0	70.9	73.6	71.4	75.7
Other Income to Net Operative Income	28.0	29.1	26.4	28.6	24.3
Empl. Cost/Oper. Exps.	31.7	32.1	32.6	33.2	36.6
Other Op. Exps./Oper. Exps.	68.3	67.9	67.4	66.8	63.4
C/I Ratio	36.3	36.9	40.4	40.3	38.8
Provisions as % PPP	17.4	14.8	10.1	9.3	8.3
Credit Cost (As % of Op. AUM)	1.2	1.0	0.7	0.7	0.5
Effective Tax Rate	25.3	24.6	24.6	20.0	24.6
Employee Exp. / Assets	0.6	0.6	0.7	0.7	0.7
Other Opex/ Assets	1.4	1.3	1.4	1.4	1.2
Total Opex / Assets	2.0	2.0	2.1	2.0	1.9
Operating Profits / Assets	3.5	3.4	3.1	3.0	3.0
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.5	3.4	3.1	3.0	3.0
Provisions / Assets	1.0	0.8	0.5	0.5	0.4
Profit Before Tax / Assets	2.5	2.6	2.6	2.5	2.6
Tax Expenses / Assets	0.6	0.6	0.6	0.5	0.6
RoA	1.9	1.9	1.9	2.0	1.9
Leverage (x)	8.6	8.6	8.8	7.8	7.9
RoE	16.6	16.7	17.0	16.6	15.2
Adj. RoA	1.9	1.9	1.9	2.0	1.9
Adj. RoE	16.6	16.7	17.0	16.6	15.2

**Exhibit 9: Balance Sheet Ratios**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	84.9	87.8	85.0	109.2	110.6
Incremental C/D Ratio	74.2	105.3	71.5	208.1	118.7
Investment Deposit Ratio	33.2	29.2	27.5	28.8	28.2
Dom. SLR Investment / Deposits	26.4	23.7	22.2	24.1	23.6
CASA Ratio	46.3	48.5	44.7	41.0	41.0

**Exhibit 10: Asset Quality**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
<i>Slippage Ratio</i>	1.6	2.4	1.8	2.5	1.4
Gross NPA (Cl Bal)	150,860	161,410	180,190	310,257	363,799
<i>Gross NPAs Ratio (%)</i>	1.3	1.2	1.1	1.2	1.2
<i>PCR (%)</i>	69.8	72.7	75.8	75.3	76.7
Net NPA (Cl. Bal.)	45,548	44,077	43,684	76,650	84,720
<i>Net NPAs Ratio (%)</i>	0.4	0.3	0.3	0.3	0.3
Total Impaired Loans	150,860	161,410	180,190	310,257	363,799
<i>Impaired Loan as % of Loan / AUM</i>	1.2	1.1	1.1	1.2	1.1
Total Risk Reserves	119,825	131,846	136,506	233,606	279,078
<i>Total Risk As % of Loan Book</i>	1.0	0.9	0.8	0.9	0.9

**Exhibit 11: Key Assumptions & Forecasts**

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances	11,328,366	13,688,209	16,005,859	25,609,374	30,475,156
Growth (yoy %)		20.8	16.9	60.0	19.0
Interest Bearing Liabilities	14,705,475	17,440,346	20,901,602	30,063,599	35,321,103
Growth (yoy %)		18.6	19.8	43.8	17.5
Yield on Funds	7.6	7.0	7.5	9.1	9.2
Cost of Funds (CoF)	4.1	3.5	3.9	5.9	6.1
Interest Spread	3.6	3.5	3.6	3.2	3.1
NIM's	4.1	3.9	4.1	3.8	3.9
Other Income Growth	8.4	17.1	5.8	40.0	6.0
C/I Ratio	36.3	36.9	40.4	40.3	38.8
Effective Tax Rate	25.3	24.6	24.6	20.0	24.6
<b>Return Ratios</b>					
Adj. RoA	1.9	1.9	1.9	2.0	1.9
Adj. RoE	16.6	16.7	17.0	16.6	15.2
<b>Asset Quality Metrics</b>					
Credit Cost (As % of Op. AUM)	1.2	1.0	0.7	0.7	0.5
Gross NPAs Ratio (%)	1.3	1.2	1.1	1.2	1.2
Net NPAs Ratio (%)	0.4	0.3	0.3	0.3	0.3

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