

# HDFC BANK LIMITED

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## All merger related negatives are in price; valuation re-rating is expected with improvement in FY25 ROA

HDFC Bank's price performance (3Years: negative 1.72%, 1Year: negative 11.53%, 6months: negative 11.13%, and YTD: negative 15.6%) was lukewarm for previous three years. With merger overhangs, higher operating expenses (C/I: 40% of 3QFY24), reducing yields (owing to higher HL of HDFC Ltd) and marginally reducing ROA (~2% for 3QFY24); the bank has underperformed the whole sector. However, we believe, the negatives are in price as trailing P/BVPS (2.78x) is at comfortable level, whereas the 5-Year peak P/BVPS (5.8x) of the bank was on June – 19. The median P/BVPS for last 5 –Years was 3.8x. The trailing P/BVPS (2.8x) is way below the 5-Year median of 3.8x. We opine a turnaround from this point as the ROA is likely to stay stable despite higher operating expenses. We recommend a STRONG BUY with a TP of ₹1,762; a potential upside of 22% from current level.

### Investment Rationales

**Valuation comfort with best in class ROA:** We expect the FY25E and FY26E ROA to stay at 1.9% with ROE to stay above 15%. The C/I ratio is likely to narrowed down to below 40% (38.8% for FY25E and 38.5% for FY26E). The bank's NIM to improve to ~3.9% in FY25E/ FY26E (v/s 3.6% in 3QFY24) with the help of better loan mix (reducing portion of HL book) and lower COF (higher deposit growth with rapid branch expansion). We have incorporated YOA (calculated) of 9.2% in FY25E/FY26E against FY24 YOA (calculated) of 9.1%. The COF is expected to stay stable given high interest rate scenario.

**Credit growth to remain robust:** We expect the loan growth of 20% and above (way above the sector growth). Mostly the growth is expected to come from high yielding unsecured credit. The current loan book composition has 30.4% share of HL (post-merger) which is likely to narrow down and PL share (7.4% in 3QFY24) is likely to improve. Additionally, the domestic corporate book (33.8% share) may improve further with strong underwriting process.

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 (₹)	1,443
12 M Price Target (₹)	1,762
Potential upside (%)	22

### Stock Data

Sector:	Banking
FV (₹):	1
Market Cap Full (₹ bn):	10,960
Market Cap Free Float (₹ bn):	10,851
52-Week High / Low (₹):	1,758 / 1,364
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

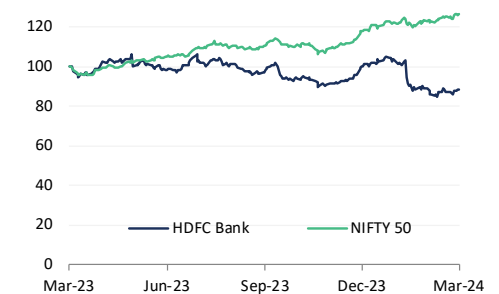
Source: BSE

### Price Performance (%)

(%)	1M	3M	6M	12M
HDFC Bank	-0.1%	-11.4%	-9.6%	-11.4%
Nifty 50	2.5%	7.3%	14.6%	26.9%

\* To date / current date : March 6, 2024

### HDFC Bank vs Nifty 50



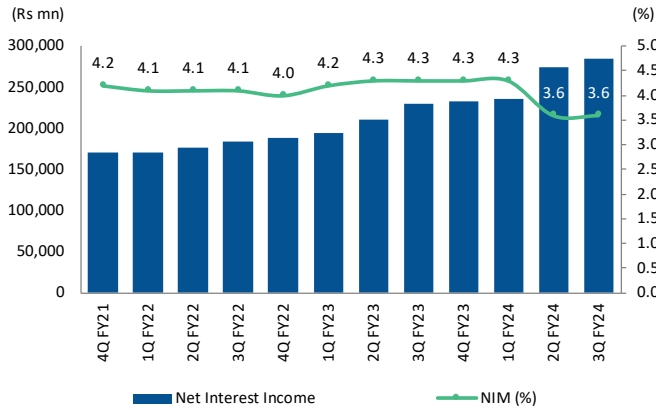
**Asset Quality in fine fettle:** The bank's asset quality is best in the industry given strong underwriting practices. The current GNPA/NNPA/PCR at 1.26%/0.3%/75% with slippages contained below 2% annualised. We expect the NPA numbers to stay steady barring few seasonal hiccups from retail book.

### Outlook and Recommendation

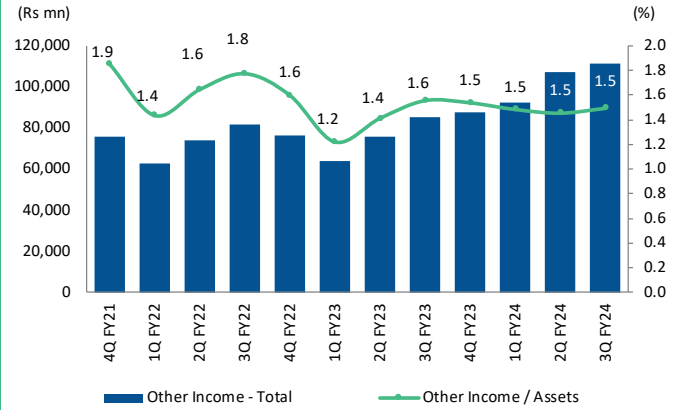
HDFC Bank is expected to overcome the merger overhangs gradually led by 1) healthy balance sheet growth, 2) much higher provision than regulatory requirement in the balance sheet, 3) best in class underwriting and risk management practices. Given these strengths we expect HDFC Bank to remain one of the best among all the lending businesses. Thus, **we continue to maintain BUY rating (given historical lower valuation) on the bank with revised target price of ₹1,762.**

Quarterly story in charts

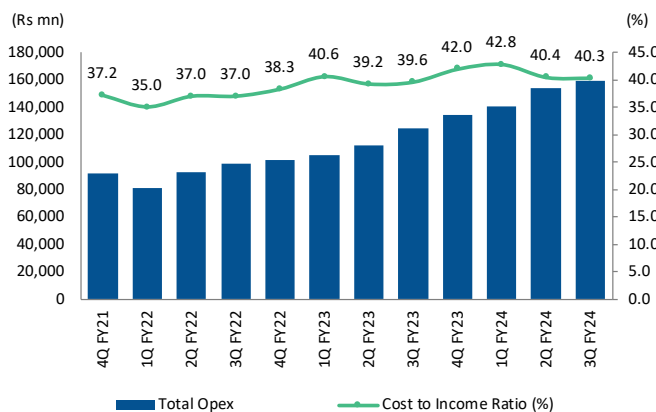
**NII Trend**



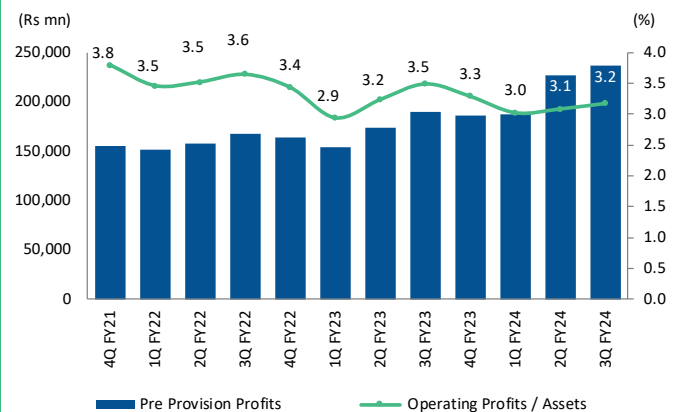
**Other income trend**



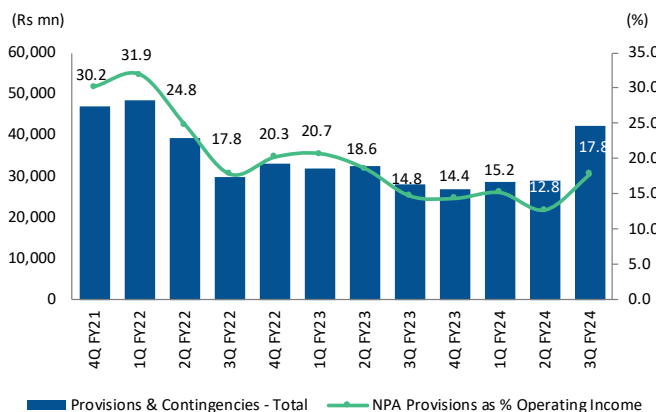
**Total Opex Trend**



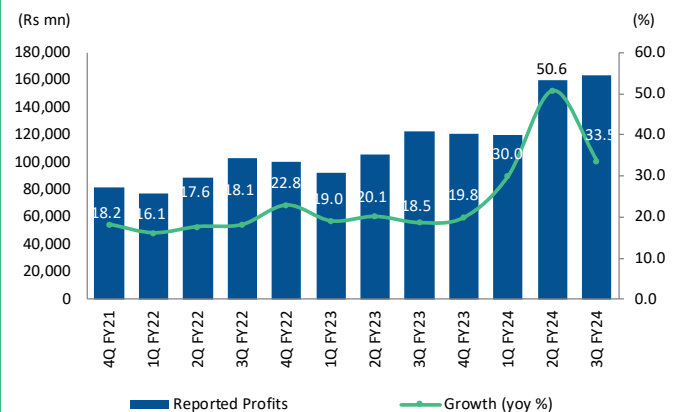
**Pre Provision Profit trend**



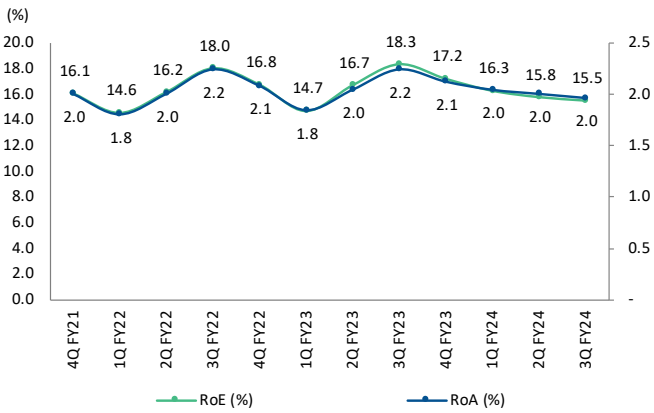
**Provision Expenses trend**



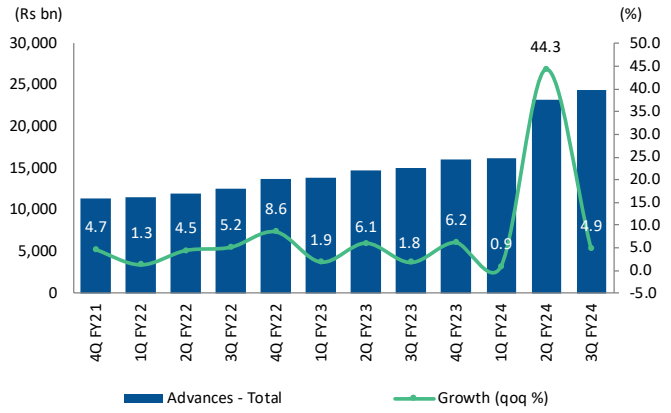
**Reported Profit trend**



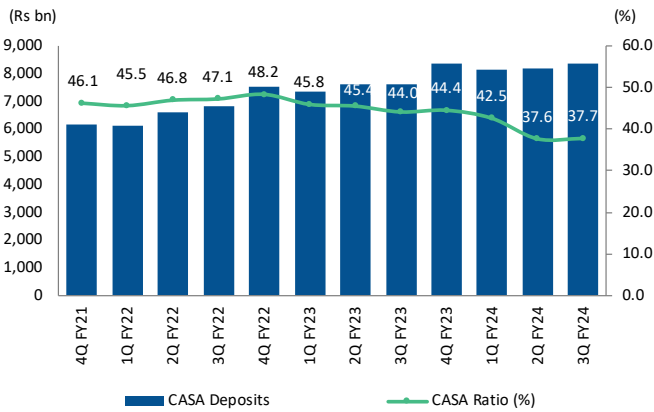
**Return Ratio trend**



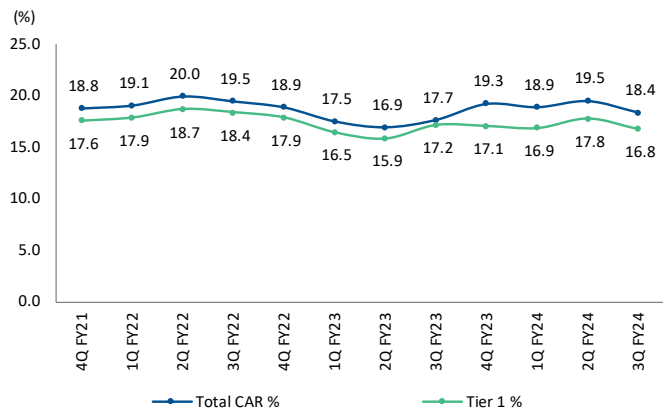
**Loan Book trend**



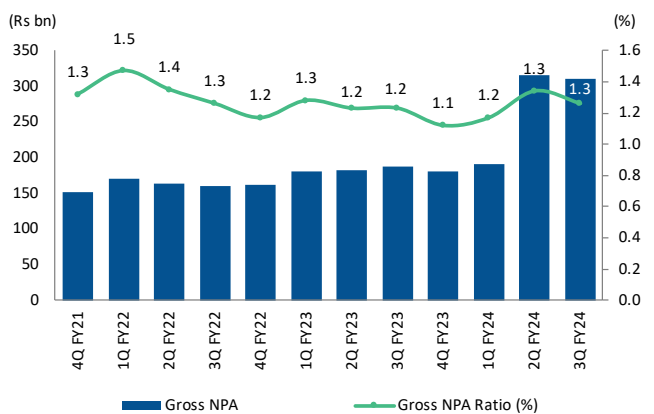
**CASA Deposit trend**



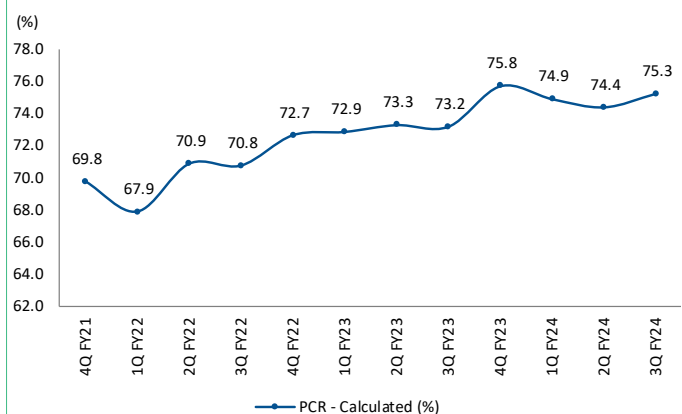
**CRAR and Tier 1 trend**



**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)	25.6	21.7	18.3	17.7	14.4
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)	3.9	3.3	2.9	2.4	2.0
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)	3.9	3.4	2.9	2.4	2.0



## 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 &amp; 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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