



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	✓	↔	✓

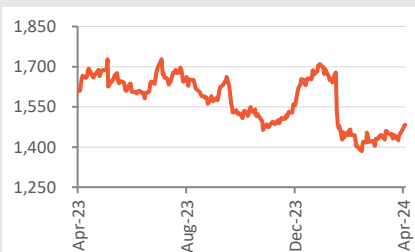
Company details

Market cap:	Rs. 11,60,732 cr
52-week high/low:	Rs. 1,758 / 1,363
NSE volume: (No of shares)	205.7 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	752.1 cr

Shareholding (%)

Promoters	-
FII	52.3
DII	30.8
Others	16.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.6	-9.6	-0.1	-5.2
Relative to Sensex	6.3	-12.8	-13.8	-30.6

Sharekhan Research, Bloomberg

HDFC Bank Ltd

Deposit growth shines

Banks	Sharekhan code: HDFCBANK			
Reco/View: Buy	↔	CMP: Rs. 1,528	Price Target: Rs. 1,900	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- HDFC Bank's business update for Q4FY24 indicated that deposit mobilisation (up 7.5% q-o-q) has been very strong amid a tight liquidity environment, which is a key positive.
- CASA growth (up 8.4% q-o-q) has also picked up strongly. CASA ratio at 38.2% versus 37.7% q-o-q.
- Deposit growth has smartly outpaced the rise in gross advances (up 1.6% q-o-q) resulting in faster normalisation of the credit-deposit ratio.
- At CMP, the stock trades at 2.1x and 1.8x its FY2025E and FY2026E core BV estimates, respectively. We maintain our Buy rating with an unchanged PT of Rs. 1,900.

HDFC Bank reported strong deposit growth in Q4FY2024. Incremental deposits mobilised during Q4 stood at Rs. 1,66,000 crore vs Rs 41,100 crore in the last quarter. This would result in faster normalisation of credit deposit ratio (~ 110.5% in Q3). Gross advances grew by 1.6% q-o-q. Retail loans grew by 3.7% q-o-q. Commercial and rural banking grew by 4.2% q-o-q. However, Corporate, and other wholesale loans degrew by 2.2% q-o-q. Overall deposits grew by 7.5% q-o-q. CASA deposits grew by 8.4% q-o-q. Out of the total incremental deposit mobilised, 77% were retail deposits which is a key positive. YoY comparison is not appropriate due to merger.

- Deposit growth to outpace loan growth in the near term:** The key challenge remains at this point of time is CD ratio is higher (~111% in Q3) 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 atleast 300-400 bps, which should bring the credit-deposit ratio to a normalised level gradually.
- Margins:** NIMs could remain rangebound (marginally with a downside bias) in near term however, it should improve gradually by 25-30 bps as high-cost wholesale funding of HDFC Ltd gets replaced with retail funding (CASA and retail deposits) and loan mix gets improved towards retail high-yielding segments over the next 12-15 months.
- Retail & commercial and rural banking (CRB) continues to drive loan growth:** Overall gross advances grew by 1.6% q-o-q and gross of IBPC/BRDS, it grew by 1.9% q-o-q. Loan growth was led by ~4.2% q-o-q growth in the commercial and rural banking (CRB) portfolio, retail book grew ~3.7% q-o-q while wholesale book declined by ~2.2% q-o-q.

Our Call

Valuation – We maintain our Buy rating with an unchanged TP of Rs. 1,900: The stock currently trades at 2.1x/1.8x its FY2025E/FY2026E core BV estimates. We believe loan growth is expected to be in low mid-teens in the near term and deposit growth should outpace loan growth by atleast 300-400 bps, which should help the CD ratio to normalise gradually. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 1,900, as valuations are reasonable and have priced in all the barring factors that could weigh down earnings trajectory of the merged entity. We remain constructive on the stock from medium to long-term perspective. Key monitorable remains NIM progression and retail deposit mobilisation.

Key Risks

Slower deposit mobilisation; economic slowdown; tech outage.

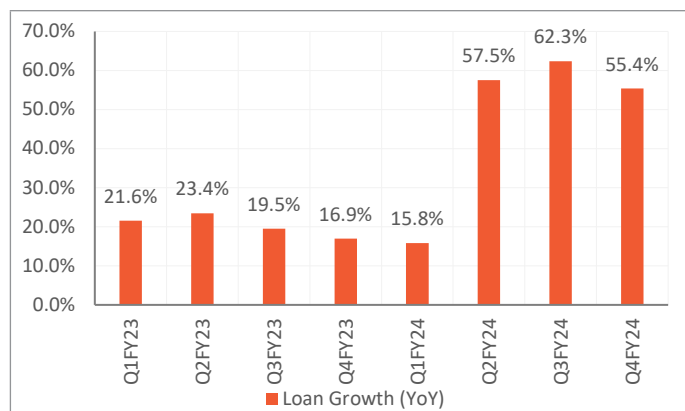
Valuation

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Net Interest Income	72,010	1,06,090	1,08,308	1,27,814	1,46,440
Net profit	36,962	60,348	60,561	66,600	76,931
EPS (Rs.)	66.3	78.9	79.3	86.7	99.7
P/E (x)	20.2	16.9	16.9	15.4	13.4
P/BV (x)	3.1	2.4	2.4	2.1	1.8
RoE	16.7	18.5	14.2	14.1	14.1
RoA	1.9	2.3	1.8	1.8	1.9

Source: Company; Sharekhan estimates

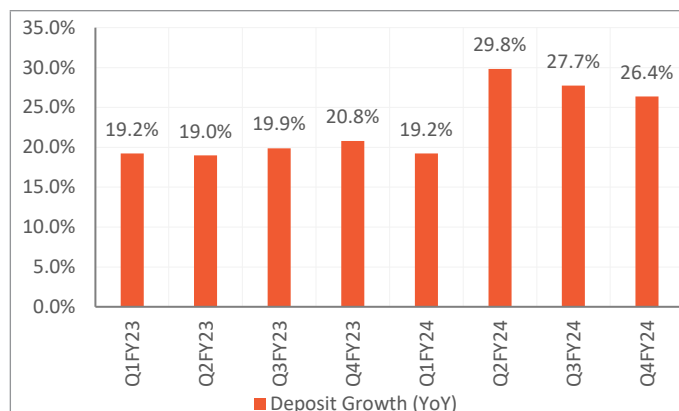
Financials in charts

Trend in Loan growth



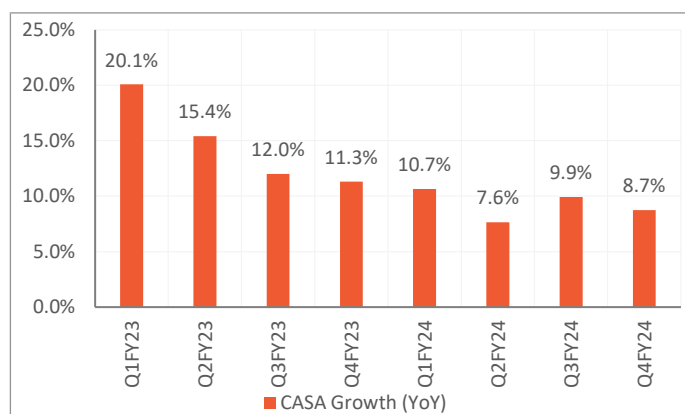
Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Trend in Deposit growth



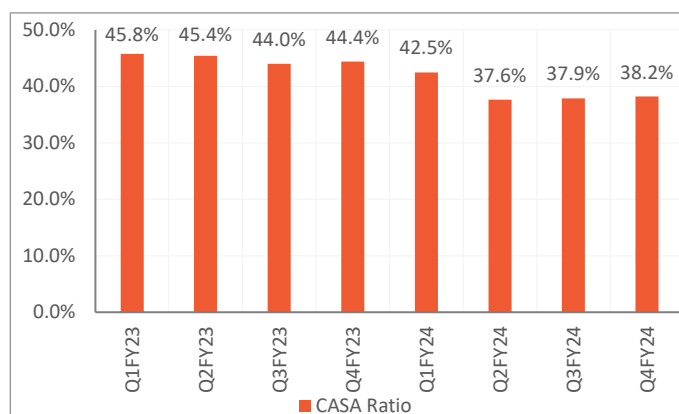
Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Trend in CASA



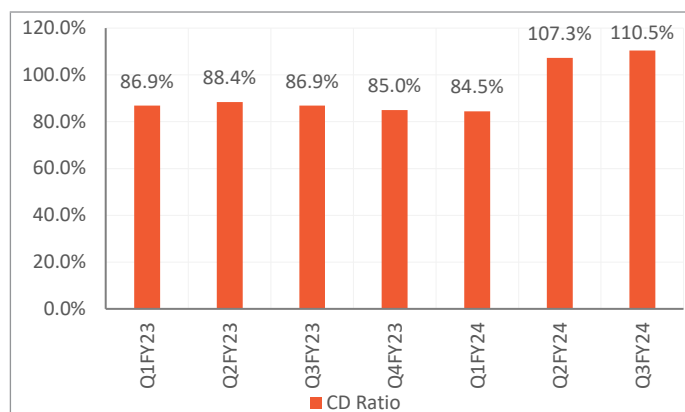
Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Trend in CASA Ratio



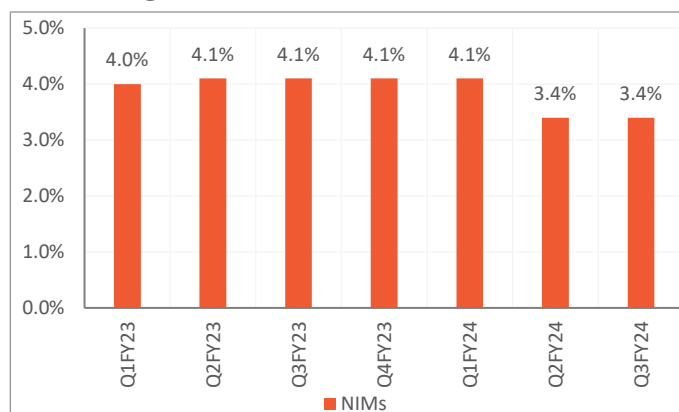
Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Trend in CD Ratio



Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Trend in Margins



Source: Company, From Q2FY24 onwards, numbers are on a merged basis.
Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 February 23, 2024, 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 remains key

Improvement in NIMs, 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 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 with an unchanged TP of Rs. 1,900

The stock currently trades at 2.1x/1.8x its FY2025E/FY2026E core BV estimates. We believe loan growth is expected to be in low mid-teens in the near term and deposit growth should outpace loan growth by atleast 300-400 bps, which should help the CD ratio to normalise gradually. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 1,900, as valuations are reasonable and have priced in all the barring factors that could weigh down earnings trajectory of the merged entity. We remain constructive on the stock from medium to long-term perspective. 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 (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFC Bank	1,528	11,60,732	15.4	13.4	2.1	1.8	14.1	14.1	1.8	1.9
ICICI Bank	1,080	7,58,447	14.7	13.2	2.3	1.9	16.6	15.8	2.2	2.2
Axis Bank	1,063	3,27,994	11.8	10.5	1.8	1.5	16.1	15.4	1.8	1.8

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; as at Jan 2024.

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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

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