



Q4FY24 HDFC Bank Ltd.



HDFC Bank Ltd.

One-off provision not a concern; Focus on deposit mobilization going ahead

CMP INR 1,508	Target INR 1,714	Potential Upside 13.7%	Market Cap (INR Mn) 1,14,52,343	Recommendation ACCUMULATE	Sector Banking
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Result Highlights Q4FY24:

- Net Interest Income (NII) for Q4FY24 stood at INR 290,768 Mn, a growth of 24.5% YoY/ 2.1% QoQ. The core NIMs for the quarter stood at 3.44%, a decline of 66 bps YoY but improved by 4 bps QoQ. NII was in line with our estimates.
- Pre-Provision Operating Profits (PPOP) grew 57.2% YoY/ 23.8% QoQ to INR 292,742 Mn, with operating income increasing by 47.3% YoY/ 19.3% QoQ. PPOP was 2.4% lower than our estimates.
- Net profit for Q4FY24 stood at INR 165,119 Mn, a surge of 37.1% YoY/ 0.9% QoQ despite higher provisions. This was led by healthy growth in operating profits and few write-back adjustments of taxes. The net profit for the quarter was 12.7% lower than our estimates, led by the higher provisions.
- As of March 31, 2024, advances were reported at INR 24,848,615 Mn, a growth of 55.2% YoY and 1.6% QoQ. The deposit grew by 26.4% YoY and 7.5% QoQ to INR 23,797,863 Mn, with the CASA ratio at 38.2% as against 44.4% a year ago (vs 37.7% as of December 31, 2023).
- We have assigned an Adj P/B multiple of 2.0x (earlier 2.2x) on the FY26E Adj Book value for the core banking business, resulting in a target price of INR 1,714 per share (earlier INR 1,950), an upside of 13.7% over the CMP. We downgrade our rating to “ACCUMULATE” from “BUY” on the back of the a) expected slowdown in business growth; and b) the gradual repayment of borrowings in the near term.

MARKET DATA

Shares outs (Mn)	7,597
Equity Cap (INR Mn)	4,375,931
Mkt Cap (INR Mn)	1,14,52,343
52 Wk H/L (INR)	1,758/ 1,364
Volume Avg (3m K)	25,157
Face Value (INR)	1.0
Bloomberg Code	HDFCB IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
NII	720,096	868,422	1,085,325	1,282,890	1,514,390
PPOP	640,773	704,050	943,874	1,054,957	1,257,543
PAT	369,613	441,087	608,123	681,542	818,419
EPS (INR / Share)	66.7	79.3	80.0	89.7	107.7
ABVPS (INR / Share)	425.0	494.3	565.4	666.7	749.5
NIM (%)	4.0%	4.1%	3.6%	3.8%	3.8%
Advances Growth YoY (%)	20.8%	16.9%	55.2%	14.0%	13.5%

Source: Company, KRChoksey Research

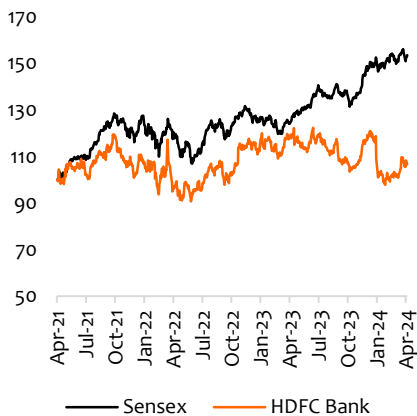
Credit offtake remained healthy led by retail and Commercial Rural Banking (CRB) segments; Retail deposit mobilization to be the core focus area going ahead:

- HDFC Bank registered healthy loan book growth, led by strong growth in the retail and CRB segments.
- Grossing up transfers through inter-bank participation certificates and bills rediscounted, the Bank's advances grew by around 53.8% YoY.
- The retail segment led the growth and reported an increase of 105.1% YoY/ 3.5% QoQ, primarily driven by strong performance in the mortgage business. The merger with eHDFC led to strong retail mortgage growth. The retail non-mortgage segment grew by 11.4% YoY/ 2.7% QoQ.
- The CRB segment continued to see healthy growth traction, resulting in a 24.6% YoY/ 4.2% QoQ surge, led by its conscious efforts to expand its rural presence.
- The wholesale lending book (excluding HDFC Ltd.) grew by 4.2% YoY but declined by 2.2% QoQ on account of non-participation in the low margins lending book compared to its set threshold.
- On the liability side, the Bank continued to focus on granular deposits. The growth in deposits outpaced the credit growth during the quarter, which decreased the credit-to-deposit ratio to 104.4% vs. 110.5% in Q3FY24. The management expects to outperform in deposit growth against the credit at a steady pace in the coming years. The CASA ratio for the quarter was marginally higher by 50 bps QoQ at 38.2% but declined by 619 bps YoY. The retail deposits accounted for ~84.0% as of March 31, 2024. The Bank remains committed to improving its retail deposit mobilization in the coming quarter.

NIMs witnessed QoQ improvement; One-time gain from Credila stake sale boosts operating profitability:

- NIMs for Q4FY24 stood at 3.4%, an improvement of 4 bps QoQ led by an improvement in the yields on assets by 4 bps, while the cost of funds remained steady on a sequential basis at 4.9%.
- Non-interest income for the quarter stood at INR 181,663 Mn, a growth of 108.1% YoY/ 63.1% QoQ. Fee income for Q4FY24 stood at INR 79,900 Mn, an increase of 20.5% YoY/ 15.1% QoQ. Net trading and mark-to-market gain stood at INR 75,900 Mn in Q4FY24, which includes a transaction gain of INR 73,414 Mn as against a loss of INR 400 Mn in Q4FY23. The Bank has sold shares of Credila Financial Services for a consideration of INR 95,527 Mn. Thus, Credila has ceased to be a subsidiary of the Bank.
- The cost-to-income ratio for the quarter was 38.0%, an improvement of 393 bps YoY/ 226 bps. Excluding transaction gains and the ex-gratia provision, the ratio stood at 41.3% for Q4FY24.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	73,738
NIFTY	22,368

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	Sep-23
Promoters	0.0	0.0	0.0
FIIIs	47.8	52.3	52.1
DIIIs	33.6	30.8	30.6
Others	18.6	16.9	17.2
Total	100.0	100.0	100.0

18.1%

NII CAGR between FY24 and FY26E

16.0%

PAT CAGR between FY24 and FY26E

HDFC Bank Ltd.

Asset Quality continues to see improvement; Provides a floating countercyclical buffer:

- The GNPA, as of March 31, 2024, stood at 1.24% of the gross advances as against 1.26% as of December 31, 2023, on a pro forma basis. The net NPAs were at 0.33% during the quarter vs. 0.31% as of December 31, 2023.
- The Bank has enhanced its floating provisions of INR 109.0 Bn during the quarter to make the balance sheet more resilient. Provisions for the quarter stood at INR 135.1 Bn, an increase of 403.2% YoY/ 220.4% QoQ. However, excluding the floating provisions, it stood at INR 26.1 Bn as against INR 26.9 Bn in Q4FY23.
- The total credit cost ratio net of recoveries (excluding the floating provisions) was 42 bps in Q4FY24 as compared to 67 bps in Q4FY23 (vs 49 bps in Q3FY24).
- The Provision Coverage Ratio (PCR) stood at a comfortable level of 74.0% during the quarter.
- In Q3FY24, HDFCB provided INR 12,198 Mn concerning the AIF investment. As per the latest circular of RBI, the Bank reassessed the provision and has consequently reversed INR 1,853 Mn in respect of these investments.
- The recoveries and upgrades were INR 45.0 Bn, and the write-offs were INR 26.0 Bn during the quarter. The slippages for Q4FY24 stood at INR 73 Bn as against INR 70 Bn in Q3FY24.

Key Concall Highlights:

- HDFCB will focus on profitability metrics with a medium to long-term view. The Bank has realized that providing guidance is a distraction from long-term objectives.
- It will maintain stability on profitability metrics, including ROAs and EPS, on a core basis over the next two to three years.
- The Bank will continue investing in technology, personnel, and distribution. It will gradually tap into operational strength by utilizing improved technology and digital infrastructure.
- The Bank has kept the cost of deposits range-bound despite a challenging macro and competitive environment.
- The Bank's yields on loans may be impacted by changes in the interest rate environment, going ahead.
- The corporate segment showing degrowth and some other products was a function where the Bank has elected not to participate because the yields have been much lower than its threshold levels. HDFCB has maintained discipline in ensuring that it doesn't go below price point on the yield of certain products across customer segments.
- The Bank believes that the monetary policy stance may continue to be hawkish, leading to elevated rates and tightened liquidity.
- HDFCB's long-term strategic objectives are focused on customer needs and preferences, and it remains balanced in offering CASA and TD products.
- The industry has been seeing a decrease in CASA ratios in a high-interest rate scenario, indicating a reduction in household savings and a shift towards other alternative instruments.
- The Bank effectively met the overall Priority Sector Lending objective. Two subsegments that the Bank considers difficult to reach and consequently addresses via inorganic sources are small and marginal farmers and the weaker section. However, the expansion into 225,000 villages reflects HDFCB's commitment to organic compliance, which has achieved 52.0% against the regulatory requirement of 40.0% as of March 2024.
- The Bank is focused on maintaining reserves so that it can meet its repayment obligations for the maturing e-HDFC bonds annually.
- Branch expansion will proceed despite cost concerns. The Bank's branch numbers hinge on location and regulatory needs, particularly in unbanked remote regions. While approximately 1,000 branches have become operational, expansion continues to boost dispersion.
- The Bank's overall asset growth reflects each business group's efforts to accelerate new customer acquisition, particularly in the deeper geography where the competition is less.

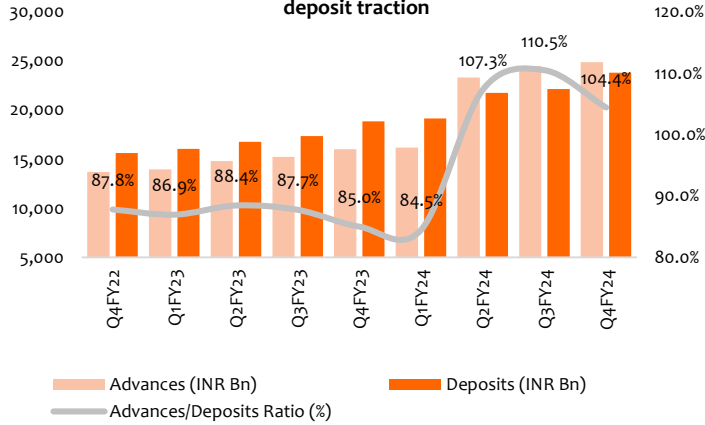
Valuation and view:

HDFCB reported mixed performance in Q4FY24, where operating performance was in line with our estimates, while the Bank took a hit to its profitability by making higher floating provisions. Thus, this impact was offset by the tax credit adjustment during the quarter. We believe the act of providing a countercyclical buffer out of the transaction gains is a positive move which will not only strengthen its balance sheet but also provide cushioning during challenging times. The credit growth offtake has seen a slowdown in growth compared to the deposits during the quarter, as the Bank has seen a higher-than-anticipated transitory flow. HDFCB will continue to focus on retail mobilization in the coming quarters as a priority and believes credit offtake will follow. On the borrowings side, HDFCB will continue to hold some of the deposits as a reserve while others will be deployed towards bond maturities starting from Q1FY25E. Management expects NIMs to gradually improve in the medium term as they shift towards higher-yielding retail and SME loans and replace high-cost obligations from e-HDFC. We anticipate that HDFCB will prioritize expanding its geographical reach to enhance the diversity of its portfolio.

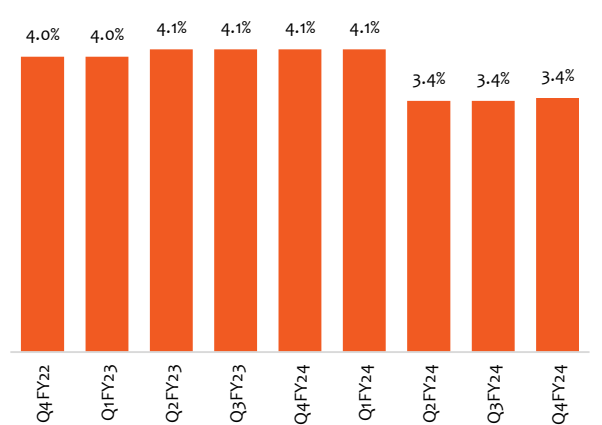
We expect CAGR in NII at 18.1%, PPOP at 15.4%, and PAT at 16.0% over FY24–26E. We have reduced our Adj. Book Value estimates for FY25E/ FY26E by 1.6%/ 2.6%, respectively. HDFCB is currently trading at 2.3x/ 2.0x for FY25E/ FY26E P/ABV, respectively. We expect the valuation to see a re-rating driven by improvements in deposit growth and the post-deployment of excess liquidity through the repayment of borrowings. **We value the bank's standalone business at 2.0x FY26E P/ABV (earlier 2.2x) to INR 1,521 and the subsidiaries at INR 193, taking the total value to INR 1,714 (earlier INR 1,950 per share), implying an upside of 13.7% from the current price. Accordingly, we downgrade our rating to "ACCUMULATE" from "BUY" on the shares of HDFC Bank Ltd. on the back of the a) expected slowdown in business growth; and b) the gradual repayment of borrowings, which may lead to a sluggish pace of margin expansion.**

HDFC Bank Ltd.

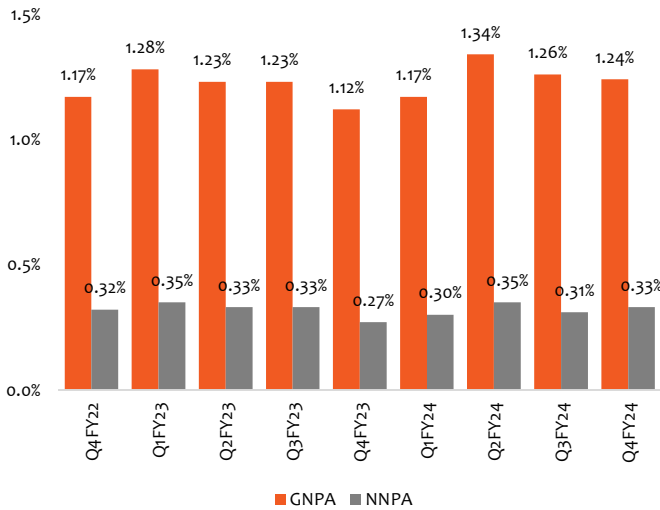
Advance/Deposit: C/D ratio normalizing with improving deposit traction



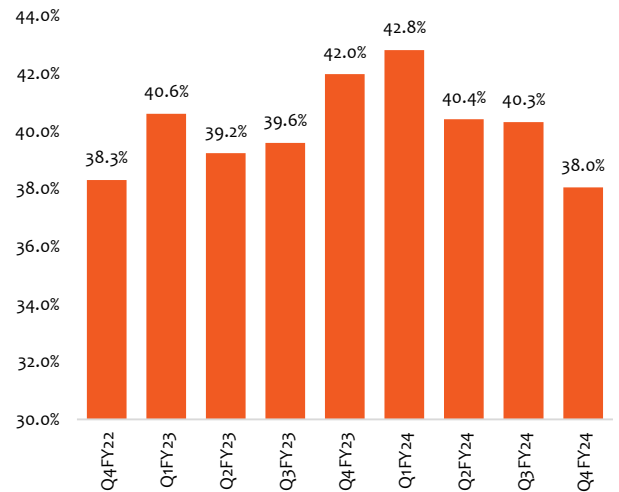
Stable Net Interest Margins



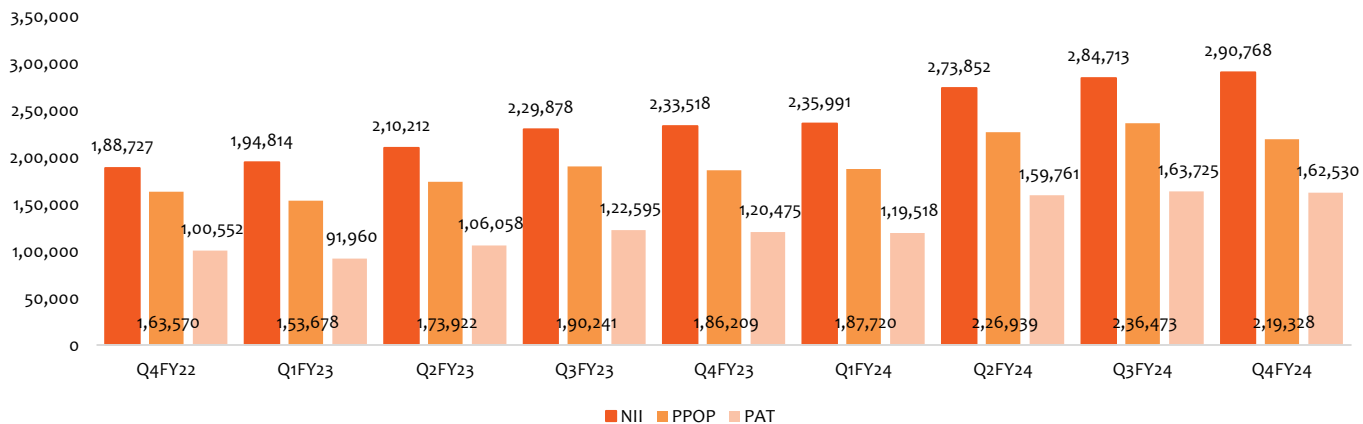
Asset Quality: Improves QoQ on proforma merged basis



Cost/Income: Strong operating income led to a fall in the ratio



Performance at Glance (In Mn): Q4FY24 performance excluding one-off adjustments reflects a QoQ decline in core operating profits



Source: Company, KRChoksey Research

HDFC Bank Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Interest Income	1,277,531	1,615,856	2,583,406	2,996,406	3,474,967
Interest Expense	557,435	747,433	1,498,081	1,713,516	1,960,577
Net Interest Income	720,096	868,422	1,085,325	1,282,890	1,514,390
Non-interest income	295,099	312,148	492,410	505,172	574,551
Operating income	1,015,195	1,180,571	1,577,735	1,788,063	2,088,941
- Employee expense	120,317	155,124	222,402	259,269	288,274
- Other operating expense	254,105	321,397	411,458	473,837	543,125
Operating Expense	374,422	476,521	633,860	733,106	831,399
PPOP	640,773	704,050	943,874	1,054,957	1,257,543
Provisions	150,618	119,197	234,921	146,234	166,317
PBT	490,155	584,853	708,953	908,723	1,091,225
Tax Expense	120,541	143,766	100,830	227,181	272,806
PAT	369,613	441,087	608,123	681,542	818,419
Diluted EPS (INR)	66.8	79.3	85.8	89.7	107.7

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Source of Funds					
Share capital	5,546	5,580	7,597	7,597	7,597
Reserves & Surplus	2,395,384	2,796,411	4,368,334	5,138,963	5,777,835
Net worth	2,400,929	2,801,990	4,375,931	5,146,560	5,785,432
Borrowings	1,848,172	2,067,656	6,621,531	6,473,000	6,323,904
Deposits	15,592,174	18,833,947	23,797,863	28,143,478	33,283,704
Other liabilities & provisions	844,075	957,223	1,354,379	1,424,622	1,533,754
Total Equity & Liabilities	20,685,351	24,660,815	36,176,231	41,214,187	46,953,321
Uses of Funds					
Cash & Balance with RBI	1,412,000	1,171,608	1,786,832	1,970,043	2,329,859
Other Bank and Call Money	223,313	766,043	404,642	422,152	499,256
Net investments	4,555,357	5,170,014	7,024,150	8,077,178	9,319,437
Loans & advances	13,688,209	16,005,859	24,848,615	28,327,421	32,151,623
Fixed assets	60,837	80,166	113,990	119,689	125,674
Other assets	857,678	1,467,125	1,998,002	2,297,702	2,527,473
Total Assets	20,685,351	24,660,815	36,176,231	41,214,187	46,953,321

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24	FY25	FY26
Growth Rates					
Advances (%)	20.8%	16.9%	55.2%	14.0%	13.5%
Deposits (%)	16.8%	20.8%	26.4%	18.3%	18.3%
Total assets (%)	18.4%	19.2%	46.7%	13.9%	13.9%
NII (%)	11.0%	20.6%	25.0%	18.2%	18.0%
Pre-provisioning profit (%)	11.7%	9.9%	34.1%	11.8%	19.2%
PAT (%)	18.8%	19.3%	37.9%	12.1%	20.1%
B/S Ratios					
Credit/Deposit (%)	87.8%	85.0%	104.4%	100.7%	96.6%
CASA (%)	48.2%	44.4%	38.2%	38.3%	38.5%
Advances/Total assets (%)	66.2%	64.9%	68.7%	68.7%	68.5%
Leverage - Total Assets to Equity	8.62	8.80	8.27	8.01	8.12
Operating efficiency					
Cost/income (%)	36.9%	40.4%	40.2%	41.0%	39.8%
Opex/total assets (%)	1.8%	1.9%	1.8%	1.8%	1.8%
Opex/total interest earning assets	2.1%	2.3%	2.4%	2.1%	2.1%
Profitability					
NIM (%)	4.0%	4.1%	3.6%	3.8%	3.8%
RoA (%)	1.9%	1.9%	2.0%	1.8%	1.9%
RoE (%)	16.7%	17.0%	16.9%	14.3%	15.0%
Asset quality					
Gross NPA (%)	1.2%	1.1%	1.2%	1.2%	1.2%
Net NPA (%)	0.3%	0.3%	0.3%	0.3%	0.3%
PCR (%) (excl. AUCA)	72.7%	75.8%	74.0%	76.0%	76.0%
Slippage (%)	2.0%	1.8%	0.8%	1.7%	1.7%
Credit cost (%)	1.5%	0.8%	1.2%	0.6%	0.6%
Per share data / Valuation					
EPS (INR)	66.7	79.3	80.0	89.7	107.7
BVPS (INR)	432.9	502.2	576.0	677.5	761.6
ABVPS (INR)	425.0	494.3	565.4	666.7	749.5
P/E (x)	22.1	20.3	18.1	16.8	14.0
P/BV (x)	3.4	3.2	2.5	2.2	2.0
P/ABV (x)	3.5	3.3	2.6	2.3	2.0

Source: Company, KRChoksey Research

HDFC Bank Ltd.

HDFC Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
24-Apr-24	1,508	1,714	ACCUMULATE
17-Jan-24	1,538	1,950	BUY
17-Oct-23	1,543	2,060	BUY
18-Jul-23	1,678	2,060	BUY
17-Apr-22	1,665	1,960	BUY
16-Jan-22	1,586	1,960	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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