



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	✗	↔	✓

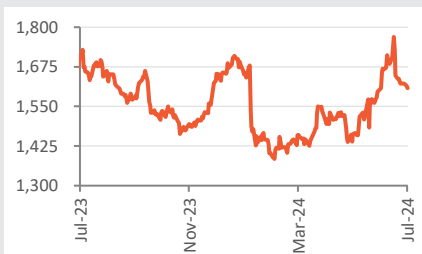
Company details

Market cap:	Rs. 12,22,701 cr
52-week high/low:	Rs. 1,792 / 1,363
NSE volume: (No of shares)	223.3 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	753.2 cr

Shareholding (%)

Promoters	-
FII	47.2
DII	35.5
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.7	5.0	8.7	-4.9
Relative to Sensex	-7.7	-5.3	-3.8	-24.1

Sharekhan Research, Bloomberg

HDFC Bank Ltd

Stable Performance

Bank	Sharekhan code: HDFCBANK			
Reco/View: Buy	↔	CMP: Rs. 1,607	Price Target: Rs. 1,900	↔
↑ Upgrade	↔ Maintain	↓ Downgrade		

Summary

- HDFC bank delivered stable performance in Q1FY25 except on deposit front and maintained its stance of staying focus on delivering stable business matrices in FY25. However, deposit growth remains a key monitorable.
- Bank expects loan-to-deposit ratio (LDR) to normalise faster, while maintaining profitability over the next couple of quarters. Thus, the bank would continue to see muted loan growth. We believe this is the right strategy during the transition.
- Asset quality slightly deteriorated but the bank does not see any concerns and expect asset quality to remain rangebound.
- Stock trades at 2.1x/1.9x its FY2025E/FY2026E core BV estimates. We maintain a Buy with an unchanged PT of Rs. 1,900. We remain assertive from medium to long term.

Q1FY25 numbers were stable. Y-o-Y numbers are not comparable as this is the fourth quarter reported after the merger. NII at Rs. 29,837 crore (up 3% q-o-q) marginally higher than estimates driven by stable NIM of ~3.5% (marginally improved by 3 bps q-o-q) despite net loan growth marginally down ~1% q-o-q. Core fee income declined by 12% q-o-q. Treasury gains stood at Rs. 220 crore versus Rs. 550 crore y-o-y & Rs. 250 crore q-o-q. Other income was lower at Rs. 3,398 crore as during the last quarter, the bank had booked large stake sale gain on account of HDFC Credila. Operating expenses declined by 8% q-o-q led by lower employee expenses as last quarter included large ex. gratia amount. Cost to income ratio (ex. one off and stake sale gain in last quarter) stood at 41.0% versus 41.3% q-o-q. PPOp at Rs. 23,885 crore (in line) down 18% q-o-q mainly due to lower non-interest income. Core PPOp (Ex. one-offs & treasury gains) grew by 2% q-o-q. Total provisions declined by 9% y-o-y/ 81% q-o-q (as last quarter had large floating provisions set aside). Core credit cost stood at 42 bps stable q-o-q. PAT at Rs. 16,175 crore marginally above estimates de-grew by 2% q-o-q. Net advances de-grew by 1% q-o-q. Among the key segments, commercial & rural banking grew 1% q-o-q. Retail loans grew by 1.5% q-o-q mainly driven by home loans. Corporate loans declined by ~5% q-o-q mainly led by non-individual loans of erstwhile HDFC Ltd. Deposit growth was flat and as loans de-grew, which resulted into marginal decrease in LDR to 103.5%. Liquidity coverage ratio was at 123% Versus 115% q-o-q. CASA declined by 5% q-o-q mainly due to large outflows in current accounts (down 14% q-o-q). Savings account balances were flat q-o-q. Term deposits grew by 3% q-o-q. GNPA was at 1.33% (+9 bps q-o-q) and NNPA at 0.39% (+6 bps q-o-q) mainly due to seasonality. PCR at 71% versus 74% q-o-q. Net slippages were higher at Rs. 4400 crore versus Rs. 2800 crore q-o-q. Floating provisions & contingent provisions were at 50 bps & 59 bps (as % of net loans), respectively.

Key positives

- NIMs were stable q-o-q, marginally improved by 3 bps q-o-q.
- Lower core credit cost sustained at ~42 bps of advances.

Key negatives

- Net accretion on deposits was flat despite higher gross inflows due to outflows in CA balances along with Rs. 16,000 crore wholesale deposits were prepaid.

Management Commentary

- The bank's key focus remains on higher retail deposit mobilisation and delivering stable business matrix during the transition period. Deposit growth remains constraint given the tight liquidity environment.
- The bank expects LDR to normalise faster while maintaining profitability over the next couple of quarters.
- Cross-selling of products has started reasonably well within the group.

Our Call

Valuation – We maintain our Buy rating on the stock with an unchanged TP of Rs. 1,900: The stock trades at 2.1x/1.9x its FY2025E/FY2026E core BV estimates. Loan growth is expected to remain muted in the near term and deposit growth is expected to outpace loan growth, which should bring the LDR to a normal level gradually. FY25 would be yet another period of transition. The bank is confident of regaining its growth trajectory and NIMs once this transition period is completed. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 1,900 as downside risk appears to be a minimal from hereon. Key monitorable: NIM progression and retail deposit mobilisation.

Key Risks

Slower retail deposit mobilisation; economic slowdown; tech outage.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	72,010	86,842	1,08,532	1,33,174	1,50,289
Net profit	36,962	44,109	60,812	69,160	77,383
EPS (Rs.)	66.3	78.9	85.4	89.9	100.5
P/E (x)	21.3	17.9	16.6	15.8	14.1
P/BV (x)	3.3	2.8	2.4	2.1	1.9
RoE	16.7	17.0	16.9	14.6	14.2
RoA	1.9	1.9	2.0	1.8	1.8

Source: Company; Sharekhan estimates

Key result highlights

- ♦ **NIMs remained stable:** NII at Rs. 29,837 crore (up 3% q-o-q) marginally higher than estimates driven by stable NIM of ~3.5% (marginally improved by 3 bps q-o-q) despite net loan growth marginally down ~1% q-o-q. The bank endeavors to protect NIMs at the current levels in near term and gradually improve by 20-30 bps over the next 12-18 months 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.
- ♦ **Asset quality deteriorated slightly:** There was slight deterioration in asset quality however bank does not see any concerns and expect asset quality to remain rangebound. GNPA was at 1.33% (+9 bps q-o-q) and NNPA at 0.39% (+6bps q-o-q) mainly due to seasonality. Excluding agri, GNPA is at 1.16%. PCR at 71% versus 74% q-o-q. Net slippages were higher at Rs. 4400 crore versus Rs. 2800 crore q-o-q. Floating provisions & contingent provisions were at 50 bps & 59 bps (as % of net loans), respectively. Core credit costs remained lower at 42 bps stable q-o-q.
- ♦ **Focus on normalising LDR:** Net advances de-grew by 1% q-o-q. Among the key segments, Commercial & rural banking grew 1% q-o-q. Retail loans grew by 1.5% q-o-q mainly driven by home loans. Corporate loans declined by ~5% q-o-q mainly led by non-individual loans of the erstwhile HDFC Ltd. Also, yields were lower in corporate segment during the quarter. Deposit growth was flat and as loans declined, which resulted into marginal decrease in LDR to 103.5%. Liquidity coverage ratio was at 123% versus 115% q-o-q. Asset growth has been adjusted while managing liquidity and CD ratio. Bank expects LDR to normalise faster while maintaining profitability over the next couple of quarters. Thus, we would continue to see muted loan growth. We believe this is the right strategy during the transition period.
- ♦ **Weak deposit growth:** Net accretion on deposits was flat q-o-q despite higher gross inflows due to outflows in CA balances along with Rs. 16000 crore wholesale deposits were prepaid. CASA declined by 5% q-o-q mainly due to large outflows in CA (down 14% q-o-q). SA balance were flat q-o-q. Term deposits grew by 3% q-o-q. Retail deposits accounted for 84%. CASA ratio at 36.3% versus 38.2% q-o-q. The bank's key focus remains higher retail deposit mobilisation. Improving distribution and vintage of branches will help to grow market share in deposit rather than adopting rate strategy. The bank added 2.2 million new liability relationship during the quarter.
- ♦ **NBFC listing on cards:** The board gave in principle approval to initiate process of listing of HDB financial services (a NBFC subsidiary) through a potential IPO as regulatory norms require mandatory listing of upper layer NBFCs. In this regard, bank would seek necessary regulatory approvals.

Results (Consolidated)					Rs cr
Particulars	Q1FY25	Q1FY24	Q4FY24	Y-o-Y	Q-o-Q
Interest Inc.	73,033	48,587	71,473	50.3%	2.2%
Interest Expenses	43,196	24,988	42,396	72.9%	1.9%
Net Interest Income	29,837	23,599	29,077	26.4%	2.6%
NIM (%)	3.47	4.30	3.44	-19.3%	0.9%
Core Fee Income	7,050	6,290	7,990	12.1%	-11.8%
Other Income	3,618	2,940	10,176	23.1%	-64.4%
Net Income	40,505	32,829	47,243	23.4%	-14.3%
Employee Expenses	5,849	4,782	6,936	22.3%	-15.7%
Other Opex	10,772	9,275	11,033	16.1%	-2.4%
Total Opex	16,621	14,057	17,969	18.2%	-7.5%
Cost to Income Ratio	41.0%	42.8%	38.0%		
Pre Provision Profits	23,885	18,772	29,274	27.2%	-18.4%
Provisions & Contingencies – Total	2,602	2,860	13,512	-9.0%	-80.7%
Profit Before Tax	21,283	15,912	15,763	33.8%	35.0%
Tax	5,108	3,960	-749	29.0%	-781.7%
Effective Tax Rate	24%	25%	-5%		
Reported Profits	16,175	11,952	16,512	35.3%	-2.0%
Basic EPS (Rs)	21.3	21.4	21.7	-0.6%	-2.1%
Diluted EPS (Rs)	21.2	21.3	21.7	-0.4%	-2.2%
RoA (%)	1.9	2.0	2.0		
Advances	24,63,521	16,15,672	24,84,862	52.5%	-0.9%
Deposits	23,79,085	19,13,096	23,79,786	24.4%	0.0%
Gross NPA	33,026	19,064	31,173	73.2%	5.9%
Gross NPA Ratio (%)	1.33	1.17	1.24		
Net NPA	9,508	4,777	8,092	99.1%	17.5%
Net NPAs Ratio (%)	0.39	0.30	0.33		
PCR – Calculated	71.2%	74.9%	74.0%		

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

Outlook and Valuation

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

System-level credit offtake (ex-HDFC Ltd) grew by ~16% y-o-y in the fortnight ending June 14, 2024, indicating loan growth has been healthy and sustaining given distinct signs of improved macros, revival of private capex, and healthy demand. On the other hand, deposits rose by ~12%. The gap between advances and deposits growth has been reducing very gradually. We are seeing strong traction in loan growth and but deposit growth remains a constraint. Margins are expected to stay stressed due to lower CASA, higher deposits rates and an inability to pass on rates on asset book. Overall, the 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 – Strong execution track record

Improvement in NIMs, strong retail deposit mobilisation resulting in the normalisation of credit-deposit ratio in turn leading to a sustainable loan growth path, building strong distribution, broadening customer base and enabling technology remain key monitorables in near to medium 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. FY25 would be another period of transition and once this transition period is completed, growth and profitability trajectory should catch up with peers.

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

The stock trades at 2.1x/1.9x its FY2025E/FY2026E core BV estimates. Loan growth is expected to remain muted in the near term and deposit growth is expected to outpace loan growth, which should bring the LDR to a normal level gradually. FY25 would be yet another period of transition. The bank is confident of regaining its growth trajectory and NIMs once this transition period is completed. We retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 1,900 as downside risk appears to be a minimal from hereon. Key monitorable: 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	1,607	12,22,701	15.8	14.1	2.1	1.9	14.6	14.2	1.8	1.8
ICICI Bank	1,248	8,78,532	16.6	14.5	2.6	2.2	17.2	16.7	2.2	2.2
Axis Bank	1,292	3,99,375	14.1	12.4	2.1	1.8	16.1	15.9	1.7	1.7

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 has delivered steady performance across cycles. HDFC Bank and HDFC Limited have successfully completed one of India's largest financial services mergers.

Investment theme

The merged entity is going through a transition period. The bank in past, 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 bank is confident of regaining its higher growth trajectory and NIMs once this transition period is completed.

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	4.84
2	Life Insurance Corp of India	4.54
3	Vanguard Group Inc/The	3.10
4	FMR LLC	2.25
5	HDFC Asset Management Co Ltd	2.25
6	ICICI Prudential Asset Management	2.18
7	Republic of Singapore	2.03
8	BlackRock Inc	1.77
9	Capital Group Cos Inc/The	1.69
10	UTI Asset Management Co Ltd	1.68

Source: Bloomberg data as at April 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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