

22 July 2024

India | Equity Research | Q1FY25 results review

HDFC Bank

Banking

In-line quarter; deposit mobilisation remains key variable impacting loan growth / NIM

HDFC Bank (HDFCB) has reported Q1FY25 PAT at INR 161.7 bn (down 2% QoQ) with annualized RoA of 1.88%. Despite flattish deposits and 1% QoQ decline in loans, NII grew ~3% (1% beat) led by better loan mix (profitable growth). QoQ reduction in borrowings (down 9%) and rise in LCR (to 123%) were key positives. Core fee, opex and asset quality were broadly in line. Despite modelling-in solid ~18% CAGR in deposits over FY24-26E, enabled by expanding distribution / focus, loan growth (~12% CAGR) is likely to lag systemic average as the bank looks to improve elevated LDR and borrowing substitution. Maintain **BUY** with an unchanged target price of INR 1,850, valuing the core banking business at ~2.3x FY26E ABV. Key risk is slower deposit mobilisation impacting loan growth and NIM.

NIM uptick driven by profitable growth; borrowings down QoQ

Loan growth and deposits growth were tepid, as communicated in provisional business update. End of the period deposits were flat QoQ though average deposits grew ~4.6% QoQ. CASA balances declined 5% QoQ while ratio stood at 36.3% vs 38.2% QoQ. Overall loans declined ~1% QoQ due to 5% decline in wholesale, though retail grew 1.5% QoQ and CRB grew 1% QoQ.

LDR improved marginally to 103.5% vs 104.4% QoQ. Positively, the bank saw hefty 9% QoQ (INR 630bn) decline in borrowings. Borrowing share (as % of total assets) stood at 17% vs 18% QoQ and 8% pre-merger. LCR improved to 123% vs 115% QoQ. Calculated cost of funds increased ~8bps QoQ. Yields on assets also increased ~10bps, aided by better yield on investments. NIM improved ~3bps QoQ to 3.47% while NIM on IEA inched up to 3.7% vs 3.6% QoQ. As against ~1% QoQ decline in loans, NII grew ~3% QoQ and the bank maintains its focus on profitable growth (vs pure growth).

Asset quality stable barring seasonal variation

Headline asset quality was impacted by seasonally higher agri slippages. Overall slippages increased from INR 73bn to INR 79bn (1.28% annualised). Ex-agri slippages actually improved QoQ from INR 64bn to INR 61bn. Net slippages came in at ~70bps vs 45bps QoQ. Gross NPA ratio was higher by 9bps QoQ to 1.33%. Net NPA inched up 6bps QoQ to 39bps. Reported credit cost was stable QoQ at ~42bps. Credit cost net of TWO recoveries was also stable QoQ at ~29bps.

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E
NII (INR bn)	868.4	1,085.3	1,228.3	1,402.8
Op. profit (INR bn)	704.0	943.9	992.7	1,170.1
Net Profit (INR bn)	441.1	608.1	674.5	789.5
EPS (INR)	79.3	92.3	88.7	103.8
EPS % change YoY	18.6	16.4	(3.9)	17.0
ABV (INR)	496.3	571.5	638.5	717.3
P/BV (x)	3.2	2.8	2.5	2.2
P/ABV (x)	3.1	2.5	2.2	1.9
Return on Assets (%)	1.9	1.8	1.8	1.9
Return on Equity (%)	16.5	14.7	14.1	14.7

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Market Data

Market Cap (INR)	12,229bn
Market Cap (USD)	1,46,158mn
Bloomberg Code	HDFCB IN
Reuters Code	HDBK.BO
52-week Range (INR)	1,794 / 1,363
Free Float (%)	99.0
ADTV-3M (mn) (USD)	406.7

Price Performance (%)	3m	6m	12m
Absolute	5.0	9.3	(4.6)
Relative to Sensex	(5.3)	(3.2)	(24.7)

Earnings Revisions (%)	FY25E	FY26E
PAT	-	-

Previous Reports

21-04-2024: [Q4FY24 results review](#)

17-01-2024: [Q3FY24 results review](#)

Other highlights

Core fee income grew 12% YoY. HDFCB has opened 113 branches QoQ and 991 YoY. O/s branches stood at 8,851. Customer base has also risen steadily to 95mn vs 85mn YoY. Opex grew 18% YoY and declined 7.5% on QoQ due to higher staff costs in Q4FY24. Overall cost to income ratio stood at ~41%. Tier 1 stood healthy at 17.3% with CAR at 19.3%. The impact due to new investment norms was INR 4.8bn, which has gone to (?) general reserves.

Deposit growth remains key variable impacting loan growth / NIM

The bank has completed one year of mega merger. Its balance sheet has seen structural changes in the form of sharp rise in LDR, lower CASA share and significant rise in the share of borrowing.

Post-merger, HDFCB has amongst the highest LDR at >100% and thus has higher ask for deposits growth. The bank would also need the deposits to replace higher cost borrowings. It has taken huge branch expansion and has seen healthy rise in customer acquisition. Despite slow start (partly impacted by seasonality), we estimate HDFCB to deliver solid ~18% CAGR in deposits for FY24-26E (absolute rise of INR 4.0-5.0trn per year). Despite strong (and higher than systemic average) deposits growth, we estimate overall loan growth of ~12% CAGR over the same period as it focuses on more balanced LDR and borrowing substitution. We see LDR easing to 100/95% for FY25/26E vs ~103% currently. Our implied incremental LDR results in 65-70%. We would see one more quarter performance to say if the NIM has bottomed-out (barring rate actions). Overall, deposits accretion remains the key variable impacting growth and NIM.

Exhibit 1: Q1FY25 result review

	Q1FY24	Q1FY25	YoY (%)	Q4FY24	QoQ (%)
Financial Highlights (INR mn)					
Interest Earned	4,85,868	7,30,331	50.3	7,14,728	2.2
Interest Expended	2,49,877	4,31,960	72.9	4,23,959	1.9
Net Interest Income	2,35,991	2,98,371	26.4	2,90,768	2.6
Other Income	92,299	1,06,681	15.6	1,81,663	-41.3
Total Income	5,78,167	8,37,013	44.8	8,96,390	-6.6
Total Net Income	3,28,289	4,05,053	23.4	4,72,431	-14.3
Staff Expenses	47,821	58,489	22.3	69,362	-15.7
Other operating expenses	92,748	1,07,717	16.1	1,10,326	-2.4
Operating Profit	1,87,720	2,38,846	27.2	2,92,742	-18.4
Provision & Contingencies	28,600	26,021	-9.0	1,35,116	-80.7
Provision for tax	39,602	51,078	29.0	(7,493)	-781.7
Reported Profit	1,19,518	1,61,748	35.3	1,65,119	-2.0
Other Highlights (INR bn)					
Advances	16,157	24,635	52.5	24,849	-0.9
Deposits	19,131	23,791	24.4	23,798	0.0
Gross NPA	190.6	330.3	73.2	311.7	5.9
Gross NPA (%)	1.17	1.33	16 bps	1.24	9 bps
Net NPA	47.8	95.1	99.1	80.9	17.5
Net NPA (%)	0.30	0.39	9 bps	0.33	6 bps
Provision Coverage (%)	74.9	71.2	-373 bps	74.0	-283 bps

Source: Company data, I-Sec research

Exhibit 2: Loan book break-up

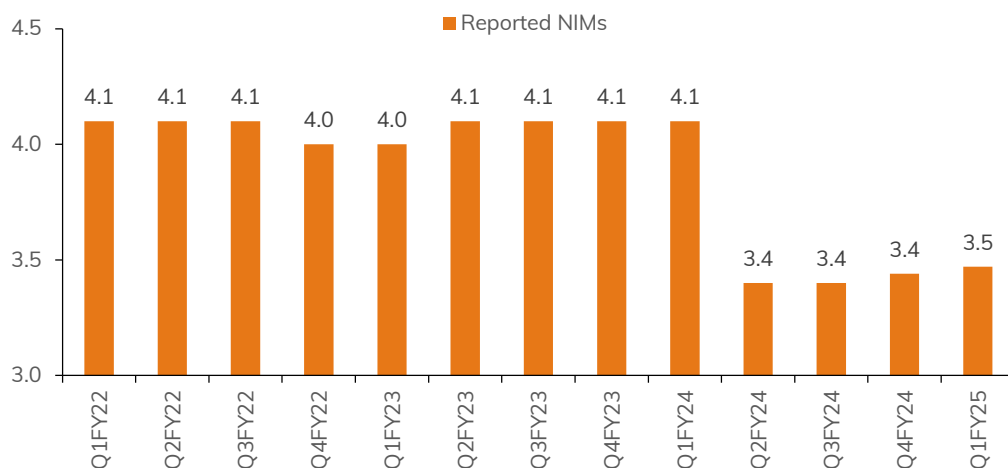
INR bn	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	Mix (%)
Retail Mortgages	6,928	7,728	7,880	14	2	32
Personal Loans	1,767	1,846	1,859	5	1	7
Auto	1,217	1,311	1,330	9	1	5
Payment Business	904	1,002	1,034	14	3	4
Two Wheelers	104	118	120	16	2	0
Gold Loans	117	138	149	27	8	1
Other Retail	595	469	445	(25)	(5)	2
Retail ex Mortgages	4,705	4,883	4,937	5	1	20
Total Retail Advances	11,632	12,611	12,817	10	2	52
Emerging Corporates	1,878	2,168	2,159	15	(0)	9
Business Banking	2,590	3,217	3,299	27	3	13
Commercial Transportation	1,164	1,374	1,416	22	3	6
CRB ex-Agri	5,632	7,003	7,127	27	2	29
Agri	796	1,053	1,001	26	(5)	4
CRB	6,428	8,056	8,128	26	1	33
Corporate and other-Wholesale	5,139	5,075	4,805	(7)	(5)	19
Subtotal	23,200	25,742	25,750	11	0	104
eHDFCL Non-Individual	-	-	-	NA	NA	-
Advances gross of IBPC	23,200	25,742	25,750	11	0	104
IBPC/BRDS	(753)	(664)	(881)	17	33	(4)
Gross Advances	22,447	25,078	24,869	11	(1)	100

Source: Company data, I-Sec research

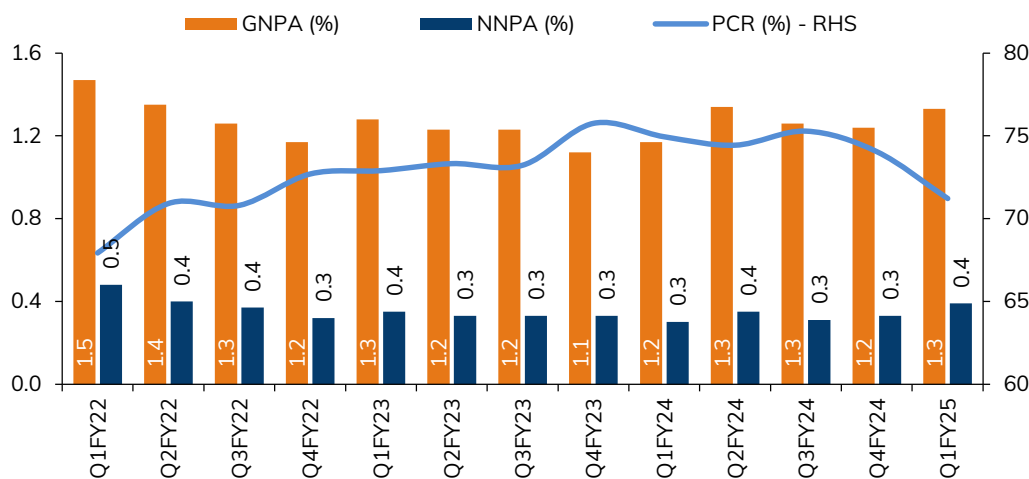
Exhibit 3: Deposits trend

(INR mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Deposits	1,55,92,174	1,60,47,600	1,67,34,080	1,73,32,040	1,88,33,947	1,91,30,958	2,17,28,578	2,21,39,770	2,37,97,863	2,37,90,845
YoY % change	16.8	19.2	19.0	19.9	20.8	19.2	29.8	27.7	26.4	24.4
QoQ % change	7.8	2.9	4.3	3.6	8.7	1.6	13.6	1.9	7.5	0.0
CASA Deposits	75,10,500	73,46,470	75,96,960	76,29,510	83,59,890	81,29,540	81,77,050	83,57,000	90,87,863	86,36,845
YoY % change	22.0	20.1	15.4	12.0	11.3	10.7	7.6	9.5	8.7	6.2
QoQ % change	10.3	-2.2	3.4	0.4	9.6	-2.8	0.6	2.2	8.7	-5.0
CASA Ratio (%)	48.2	45.8	45.4	44.0	44.4	42.5	37.6	37.7	38.2	36.3
Term Deposits	80,81,674	87,01,130	91,37,120	97,02,530	1,04,74,057	1,10,01,418	1,35,51,528	1,37,82,770	1,47,10,000	1,51,54,000
YoY % change	12.3	18.5	22.1	26.9	29.6	26.4	48.3	42.1	40.4	37.7
QoQ % change	5.7	7.7	5.0	6.2	8.0	5.0	23.2	1.7	6.7	3.0

Source: Company data, I-Sec research

Exhibit 4: NIM saw minor uptick QoQ

Source: Company data, I-Sec research

Exhibit 5: Asset quality stable

Source: Company data, I-Sec research

Exhibit 6: SOTP Valuation

Name	Total value of business (INR Bn)	HDFCB Stake (%)	Value for HDFCB (INR bn)	Value for HDFCB (per share)	Comments
HDFC Life	1,747	50	880	116	I-Sec coverage
HDFC Mutual Fund	1,038	53	545	72	I-Sec coverage
HDB Financial Services (Unlisted)	703	95	665	87	4.0x FY26E ABV
HDFC Securities Limited (Unlisted)	105	95	100	13	10x FY26E PAT
Others		NA	266	35	Miscellaneous
Total subs/assoc/JV			2,456	323	
Holding company discount (%)				20	
Subs/assoc/JV value per share in SOTP				258	
Core banking book			701	1,592	~2.3x FY26E ABV
Target Price (INR)				1,850	

Source: Company data, I-Sec research

Q1FY25 conference call takeaways

- The bank has re-oriented the entire organisation on average business growth vs end of period growth.
- There is no prescription from any one including the regulator on any specific level of LDR. The bank is cognisant of wedge between credit and deposits growth and there is an internal glide path. It would like to bring LDR to more suitable level by itself vs being nudged by anyone.
- The bank would continue to focus on profitable growth vs pure loan growth.
- As against the target of 10% for small and marginal farmers, HDFCB stands at ~9% as of FY24.
- Borrowings have declined by INR 628bn on QoQ basis. This includes INR 150bn run-down of CP. Of the total borrowing repaid, INR 100bn was treasury / liquidity management. Of the rest ~INR 520bn (primarily eHDFC limited), INR 250bn had scheduled repayment and the rest included ahead of the schedule repayment.
- The scheduled maturity of eHDFC limited borrowing is INR 600bn for FY25. As of Jun'24, INR 250bn has been repaid. A good amount of eHDFC borrowings are fixed in nature. There is some hedging arrangement on fixed rate borrowings. There is fair proportion of floating borrowing as well.
- The modified duration of liability and assets is in narrow range.
- The bank would like to compete on customer service parameters vs prices.
- The impact due to new investment norms stood at INR 4.8 bn, which has gone to general reserves.
- HDB credit cost has been higher due to seasonality. Stage 3 is broadly stable.

Q4FY24 earnings call key takeaways

Opening remarks by MD and CEO

- The bank refrained from giving any numerical guidance.
- **Key focus in the medium term (1–3 years) is to improve the profitability metrics i.e. RoE and EPS.** To sustain that, key variable would be the sustainability of deposit franchise (especially retail deposits), enhanced customer engagement and customer service first culture.
- **HDFC Bank is not a quantity player – neither on the liabilities side and nor on the assets front.**
- **Resiliency of the institution continues despite the merger.**
- This is a completely new organisation now, post-merger with erstwhile HDFC Limited. Hence, it would be incorrect to compare the financials of HDFC Bank (prior to merger) with the current one.

Margins and LCR

- The cost of the funds has been broadly range bound. If there is no further pressure on cost of funds going ahead, then yields are likely to remain stable.
- Margins, even if they remain stable from hereon, the bank would be delighted. Business mix will then determine the margin trajectory if it continues to have higher proportion of retail and CRB in overall portfolio.
- CASA mix also plays a role in determining the margin trajectory.
- In a high interest rate scenario, CASA ratio tends to be bit tepid.
- The bank is aware that it has to use the funding toward liquidity, borrowing re-payment; thus, it would have to ration incremental credit. As the bank has to ration funding, it has raised the threshold on yield and did that in this quarter. However, the same was opportunistic and may not be a regular event.

PSL

- Overall PSL achievement was 45% in FY23 and now is 52% for FY24.
- **Two sub-targets – SMF and weaker segment may not be easy to achieve. But the bank has enhanced its breadth through CRB. And believes that the trajectory should be strong. The bank would try to comply to the requirement organically.**
- **Higher PSL achievement would start impacting from October onwards.**
- The bank is now catering to 2.25L villages and caters to 117k SMF.

Advances

- Bank is not going to chase growth, just for the sake of growth.
- Asset growth has been adjusted to recoup the liquidity buffers.
- Advances mix is skewed towards better yielding segments namely CRB and retail.
- **Corporate loans have seen lower growth, because yields there are much lower than the bank's threshold.**
- **Lending is as per the bank's risk based pricing models and not influenced by bank's LDR ratio etc.**
- *Bank has expended small and medium enterprises business to 715 districts across the country.*

Deposits

- Bank continued to gain market share in deposits.
- While Q4 deposit growth is healthy, this includes **some transitory flows which were more-than-expected.**
- As per the bank's past six years' trend, Q1 has the lowest deposits inflow followed by Q2 and Q3 with relatively higher inflows and Q4 has the highest deposits inflow.
- Incremental LDR would be a tad lower than the historical average since the bank has some obligations on the bond side. First priority is to keep reserve to meet bond obligations and then use the resources to fund core assets.
- FY24 deposits per branch at INR 2.7bn adjusted for the merger vs. INR 2.6bn for FY23.
- Borrowing run-down during the quarter was primarily CP and short term paper. The long term high cost borrowing did not run down much and it would start from FY25 onwards.

Opex

- Institution has consummated one of the largest and toughest merger in the history. For this, employees have worked really hard. As a result, bank has rewarded them with an ex-gratia provision of INR15bn.
- The bank will continue to make investments in people and technology.
- Operating leverage would be harnessed over a period of time.
- Quantum of branches which bank opens, depends on multiple factors. The bank has opened 917 branches during FY24 vs. 1,479 during FY23 and 734 during FY22.

Asset quality

- Bank has created floating or counter cyclical provisions (which are made in good times) of INR 109bn during the quarter. **Such provisions enhance the resilience of the balance sheet. This is to protect the bank against any future uncertainties.** Floating is different from contingent. The usage of floating provisions is stricter than contingent provisions. The bank believes that there are no anticipated asset quality issues; hence, it has not done contingent provisions but opted for floating provisions.
- Floating provision is 50bps of total loan book and contingency provision is 59bps of total loan book.
- **Early indicators across segments are much better and the above provisions don't indicate any stress on asset quality.**

Miscellaneous

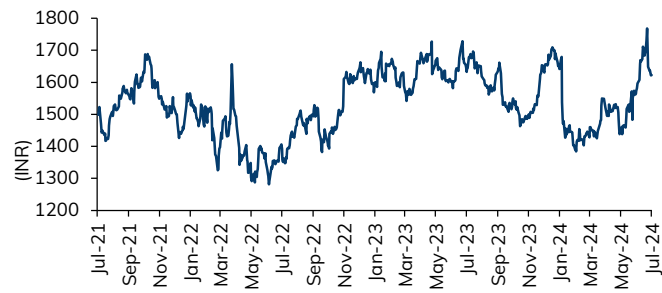
- Adjusting for the one-offs during Q4, RoA is in-line with historical average.
- Bank has seen stalwarts who have come and left. Bank is not person dependent, but it is process dependent.

Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	0.0	0.0	0.0
Institutional investors	83.1	81.5	80.7
MFs and others	19.4	23.2	24.8
FIs/Banks	0.1	0.1	0.5
Insurance	9.1	8.1	8.2
FIIIs	54.5	50.1	47.2
Others	16.9	18.5	19.3

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest income	16,15,855	25,83,406	30,14,210	33,41,984
Interest expense	7,47,433	14,98,081	17,85,901	19,39,177
Net interest income	8,68,422	10,85,325	12,28,310	14,02,807
Non-interest income	3,12,148	4,92,410	4,91,194	5,99,413
Operating income	11,80,571	15,77,735	17,19,504	20,02,220
Operating expense	4,76,521	6,33,860	7,26,842	8,32,123
Staff expense	1,55,124	2,22,402	2,61,832	2,99,173
Operating profit	7,04,050	9,43,874	9,92,662	11,70,097
Core operating profit	7,15,361	8,38,874	9,60,662	11,25,097
Provisions & Contingencies	1,19,197	2,34,921	1,05,221	1,31,248
Pre-tax profit	5,84,853	7,08,953	8,87,441	10,38,849
Tax (current + deferred)	1,43,766	1,00,830	2,12,986	2,49,324
Net Profit	4,41,087	6,08,123	6,74,455	7,89,526
Adjusted net profit	4,41,087	6,08,123	6,74,455	7,89,526

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Cash and balance with RBI/Banks	19,37,651	21,91,474	25,26,495	28,59,641
Investments	51,70,015	70,24,150	75,90,760	84,04,300
Advances	160,05,859	248,48,616	275,83,022	311,68,768
Fixed assets	80,165	1,13,990	1,18,715	1,30,587
Other assets	14,67,125	19,98,002	22,68,318	26,23,985
Total assets	246,60,814	361,76,232	400,87,312	451,87,280
Deposits	188,33,946	237,97,862	279,83,302	329,58,198
Borrowings	20,67,656	66,21,531	57,03,301	51,70,346
Other liabilities and provisions	9,57,223	13,54,379	14,78,908	15,29,003
Share capital	5,580	7,597	7,609	7,609
Reserve & surplus	27,96,410	43,94,861	49,14,192	55,22,127
Total equity & liabilities	246,60,814	361,76,232	400,87,312	451,87,280
% Growth	19.2	46.7	10.8	12.7

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
No. of shares and per share data				
Adjusted EPS	79.3	92.3	88.7	103.8
Book Value per share	502	580	647	727
Adjusted BVPS	496	572	638	717
Valuation ratio				
PER (x)	20.3	17.4	18.1	15.5
Price/ Book (x)	3.2	2.8	2.5	2.2
Price/ Adjusted book (x)	3.1	2.5	2.2	1.9
Dividend Yield (%)	1.2	1.4	1.3	1.5
Profitability ratios (%)				
Yield on advances	8.6	10.1	9.3	9.2
Yields on Assets	7.1	8.5	7.9	7.8
Cost of deposits	3.6	5.0	5.3	5.2
Cost of funds	3.3	4.9	4.7	4.5
NIMs	4.1	3.6	3.4	3.5
Cost/Income	40.4	40.2	42.3	41.6
Dupont Analysis (as % of Avg Assets)				
Interest Income	7.1	8.5	7.9	7.8
Interest expended	3.3	4.9	4.7	4.5
Net Interest Income	3.8	3.6	3.2	3.3
Non-interest income	1.4	1.6	1.3	1.4
Trading gains	0.0	0.3	0.1	0.1
Fee income	1.4	1.1	1.2	1.3
Total Income	5.2	5.2	4.5	4.7
Total Cost	2.1	1.9	1.9	2.0
Staff costs	0.7	0.7	0.7	0.7
Non-staff costs	1.4	1.1	1.2	1.2
Operating Profit	3.1	3.3	2.6	2.7
Core Operating Profit	3.2	2.8	2.5	2.6
Non-tax Provisions	0.5	0.7	0.3	0.3
PBT	2.6	2.6	2.3	2.4
Tax Provisions	0.6	0.8	0.6	0.6
Return on Assets (%)	1.9	1.8	1.8	1.9
Leverage (x)	8.7	8.2	8.2	8.2
Return on Equity (%)	16.5	14.7	14.1	14.7
Asset quality ratios (%)				
Gross NPA	1.1	1.2	1.2	1.2
Net NPA	0.3	0.3	0.3	0.3
PCR	75.8	74.0	75.0	75.0
Gross Slippages	1.8	1.7	1.2	1.1
LLP / Avg loans	0.8	1.1	0.5	0.5
Total provisions / Avg loans	0.8	1.2	0.4	0.4
Net NPA / Networth	1.6	1.8	1.7	1.7
Capitalisation ratios (%)				
Core Equity Tier 1	16.4	16.3	16.3	16.3
Tier 1 cap. adequacy	17.1	16.8	16.7	16.7
Total cap. adequacy	19.3	18.8	18.8	18.7

Source Company data, I-Sec research

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