KRChoksey RESEARCH by DEVEN CHOKSEY

Q1FY25
HDFC Bank Ltd.

Result Update

23rd July 2024

HDFC Bank Ltd.

Higher-cost borrowing deployment aiding margin improvement

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,643*	**INR 1,860**	**13.2%**	**12,492,537**	**ACCUMULATE**	**Banking**

Result Highlights Q1FY25:

- Net Interest Income (NII) for Q1FY25 stood at INR 298,371 Mn, a growth of 26.4% YoY/ 2.6% QoQ. NII was in line with our estimates. Pre-Provision Operating Profits (PPOP) grew 27.2% YoY (-18.4% QoQ) to INR 238,846 Mn, with operating income growing by 23.4% YoY. PPOP was in line with our estimates.
- Net profit for Q1FY25 stood at INR 161,748 Mn, a surge of 35.3% YoY (-2.0% QoQ) led by healthy operating performance. The net profit for the quarter was 2.0% higher than our estimates.
- **We have assigned an Adj P/B multiple of 2.2x (earlier 2.0x) on the FY26E Adj Book value for the core banking business and subsidiaries value of INR 214 per share, resulting in a target price of INR 1,860 per share (earlier INR 1,714), an upside of 13.2% over the CMP. We have maintained our "ACCUMULATE" rating on the shares of HDFC Bank Ltd.**

MARKET DATA

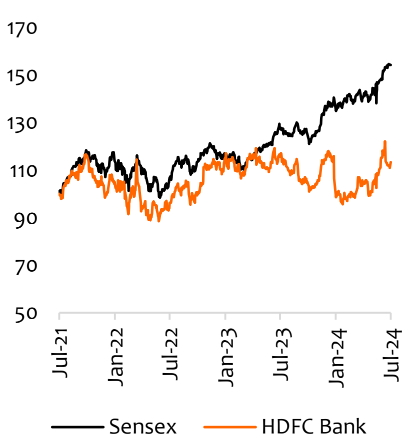
Shares outs (Mn)	7,608
Net worth (INR Mn)	45,86,823
Mkt Cap (INR Mn)	12,492,537
52 Wk H/L (INR)	1,794/ 1,364
Volume Avg (3m K)	21,168
Face Value (INR)	1.0
Bloomberg Code	HDFCB IN

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
NII	720,096	868,422	1,085,325	1,278,199	1,479,900
PPOP	640,773	704,050	943,874	1,049,404	1,229,916
PAT	369,613	441,087	608,123	688,280	811,289
EPS (INR / Share)	66.7	79.3	80.0	90.5	106.6
ABVPS (INR / Share)	425.0	494.3	565.4	677.0	759.8
NIM (%)	4.0%	4.3%	4.1%	3.8%	3.9%
Advances Growth YoY (%)	20.8%	16.9%	55.2%	12.0%	13.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Sharp decline in corporate loans; Focus on C/D ratio reduction in coming quarters:

- As of June 30, 2024, HDFCB has reported a credit growth of 52.5% YoY (-0.9% QoQ). The decline on a sequentially basis was on account of the sharp fall in corporate advances; however, was offset by decent growth in retail segment.
- The retail segment led the growth and reported an increase of 100.4% YoY/ 1.5% QoQ. The gold loan segment reported a strong growth of 8.0% QoQ, while the personal loan segment remained flat (+0.7% QoQ) which was a deliberate effort to reduce the unsecured loan segment. The Bank continues to be cautious and selective on the unsecured retail business, including personal loans and credit cards, and will continue to lend only to high-credit quality consumers
- The Commercial Rural Banking (CRB) segment continued to see healthy growth traction (+22.9% YoY/ 0.9% QoQ).
- The wholesale lending book saw a strong 18.8% YoY growth but experienced a 5.3% QoQ decline due to HDFCB's strategic decision to abstain from certain opportunities based on pricing considerations. HDFCB will maintain selectivity until pricing normalizes, and then leverage its wholesale banking partnerships to pursue additional lending opportunities.
- Deposits stood at INR 23,791 Bn, a growth of 24.4% YoY while remained flat QoQ. The flattish growth was attributable to the seasonal weakness. The bank will continue to focus on organic and granular deposit mobilization through its branch network.
- The CASA ratio for the quarter declined by 619 bps YoY/ 188 bps QoQ. The retail deposits accounted for ~84.0% as of June 30, 2024.
- HDFCB aims to slightly moderate the growth of its advances in order to reduce the Credit-to-Deposit (C/D) ratio to levels similar to those pre-merger.

MARKET INFO

SENSEX	80,502
NIFTY	24,509

SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	0.0	0.0	0.0
FIIs	47.2	47.8	52.3
DIIs	35.5	33.6	30.8
Others	17.3	18.6	16.9
Total	100.0	100.0	100.0

*Based on Previous Closing

16.8%

NII CAGR between FY24 and FY26E

15.5%

PAT CAGR between FY24 and FY26E

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HDFC Bank Ltd.

NIMs continues to improve QoQ driven by the ongoing deployment of borrowings:

- The core NIMs on total assets for Q1FY25 stood at 3.5%, an improvement of 3 bps QoQ. Yields on assets stood at 8.4%, while the cost of funds remained steady on a sequential basis at 4.9%.
- Borrowings for the quarter stood at INR 5,993 Mn, a decline of 9.5% QoQ.
- Non-interest income for the quarter stood at INR 106,681 Mn, a growth of 15.6% YoY (-41.3% QoQ on the high base). Fee income for Q1FY25 stood at INR 70.5 Bn, an increase of 12.1% YoY (-11.8% QoQ). Net trading and mark-to-market gain stood at INR 2.2 Bn in Q1FY25 as against a gain of INR 5.5 Bn in Q1FY24.
- The cost-to-income ratio for the quarter was 41.0%, an improvement of 179 bps YoY (+27 bps QoQ excluding the transaction gains and the ex-gratia provision of Q4FY24).

Asset Quality slightly under pressure due to higher slippages in Agri-segment:

- The GNPA, as of June 30, 2024, stood at 1.33% of the gross advances (1.16% excluding NPAs in the agricultural segment) as against 1.24% as of March 31, 2024 (1.12% excluding NPAs in the agricultural segment). The net NPAs were at 0.39% during the quarter vs. 0.33% as of March 31, 2023.
- Slippages for the quarter stood at INR 79 Bn (ex-agri INR 61 Bn) as against INR 73 Bn (ex-agri INR 64 Bn) in Q4FY24.
- The recoveries and upgrades were INR 35.0 Bn, and the write-offs were INR 26.0 Bn during the quarter.
- The total credit cost ratio net of recoveries was 42 bps in Q1FY25 as compared to 70 bps in Q1FY24 (flat QoQ).
- The Provision Coverage Ratio (PCR) stood at a comfortable level of 71.2% during the quarter.
- The Bank continues to hold provisions on INR 608 Bn as of June 30, 2024, which includes contingent provisions of INR 145 Bn.

Key Concall Highlights:

- In FY25E, which remains a period of transition post-merger, HDFCB will maintain its focus to ensure stability in key metrics and accomplish its medium to long-term objectives.
- HDFCB experienced a higher-than-expected fluctuation in current account activity, driven in part by the Bank's relatively larger market share in this area. As HDFCB's balance sheet has expanded, the volume of inflows and outflows in current accounts has also increased, reflecting the nature of economic activity. For the Bank, heightened economic activity in current accounts is a positive indicator and will lead to larger transactional balances in these accounts.
- HDFCB has made a strategic decision to prioritize slower growth of its advances book in comparison to its deposit book. The Bank's emphasis is on achieving profitable growth rather than focusing solely on expansion.
- The lower deposit mobilization during the quarter was due to a combination of factors: some outflow from the current account and the winding down of INR 160 Bn of the previous HDFC non-retail deposit.
- The Bank has made a strategic decision not to engage in a competitive pricing battle with its industry peers to attract additional deposits. Instead, the Bank will direct its efforts towards enhancing customer interactions and fostering stronger relationships in order to boost deposit growth.
- The Bank has started bundling different products, such as consumer durables loans, credit cards, and insurance
- HDFCB has added 2.2 Mn new customer relationships during the quarter.
- HDB Financials' total loan book was INR 956 Bn as of June 30, 2024, a growth of 30.0%. Stage 3 loans were at 1.93% of gross loans. As of June 30, 2024, total CAR was at 18.8% with Tier-I CAR at 14.0%.
- Credit costs at HDB Financial have increased due to challenges in collecting payments in rural areas caused by extreme heat waves. However, this situation is anticipated to improve in coming quarters.
- HDFC Ergo posted a profit after tax of INR 1.3 Bn, as against INR 2.0 Bn for the quarter ended June 30, 2023.
- HDFC Securities Ltd.'s total revenue was INR 8.2 Bn, as against INR 5.0 Bn for the quarter ended June 30, 2023. Profit after tax for the quarter ended June 30,2024 was INR 2.9 Bn, a growth of 54.6% YoY.

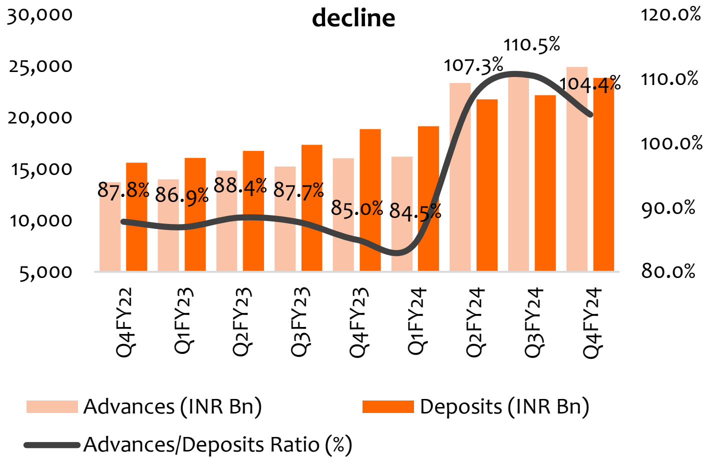
Valuation and view:

In Q1FY25, HDFC Bank delivered a performance that met expectations. The NIMs showed a positive trend due to the increased deployment of borrowings by e-HDFC Ltd. Looking ahead, the bank anticipates further NIM improvement in the upcoming quarters by reducing high-cost borrowings, focusing on growing retail deposits, and concentrating on high-yielding loan portfolios within the retail segment. Additionally, HDFC Bank plans to moderate credit growth in the coming quarters to lower the C/D ratio. The management remains confident that asset quality will remain stable and in line with expectations for FY25E.

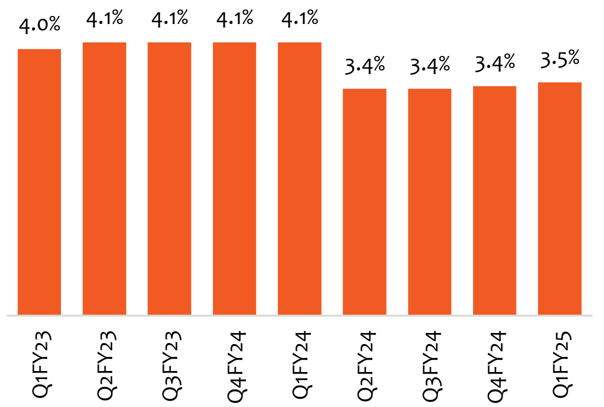
We expect CAGR in NII at 16.8%, PPOP at 14.2%, and PAT at 15.5% over FY24–26E. HDFCB is currently trading at 2.3x/ 2.0x for FY25E/ FY26E P/ABV, respectively. We expect the valuation to see a re-rating driven by improvements in deposit growth and the post-deployment of excess liquidity through the repayment of borrowings. **We value the bank's standalone business at 2.2x FY26E P/ABV (earlier 2.0x) to arrive at a valuation of INR 1,646 per share. The subsidiaries value stands at INR 214, taking the total value of HDFCB to INR 1,860 (earlier INR 1,714 per share), implying an upside of 13.2% from the current price. Accordingly, we maintain our rating of "ACCUMULATE" on the shares of HDFC Bank Ltd.**

HDFC Bank Ltd.

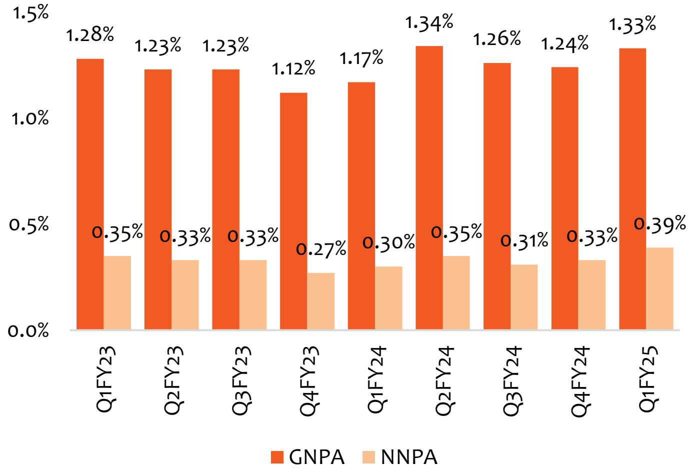
Advance/Deposit: C/D Ratio continues to decline



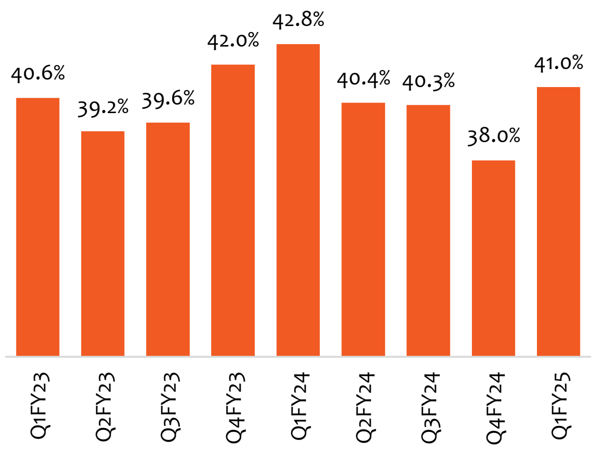
Marginal improvement seen in NIMs on sequential basis



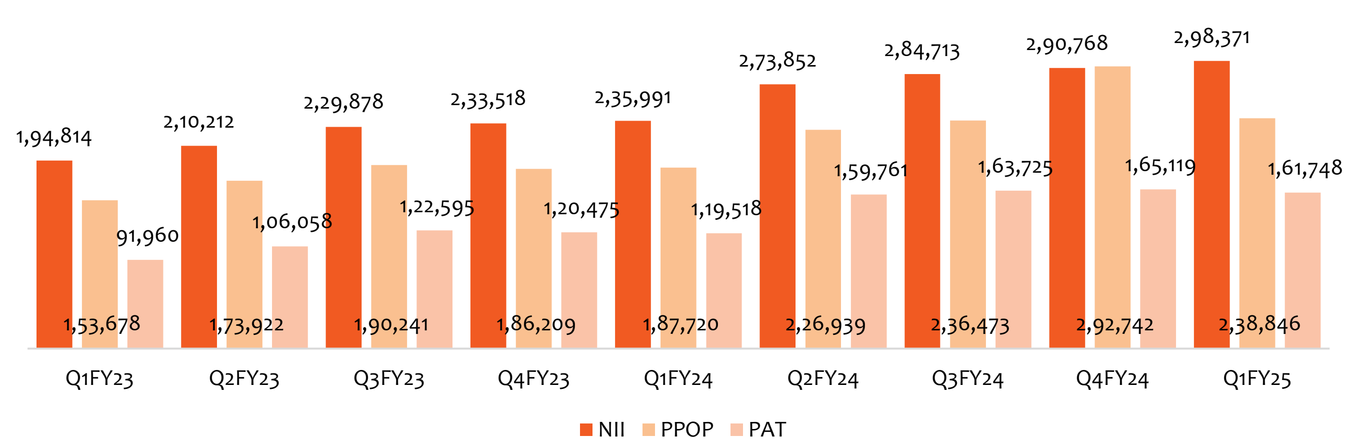
Asset Quality deteriorates due to seasonally weak quarter for Agri segment



Cost/Income ratio normalizes after exceptional Q4FY24



No major hiccups at operating level (INR in Mn)



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	3,192,562	3,584,803
Interest Expense	557,435	747,433	1,498,081	1,914,362	2,104,903
Net Interest Income	**720,096**	**868,422**	**1,085,325**	**1,278,199**	**1,479,900**
Non-interest income	295,099	312,148	492,410	500,451	563,149
Operating income	1,015,195	1,180,571	1,577,735	1,778,651	2,043,049
- Employee expense	120,317	155,124	222,402	257,904	281,941
- Other operating expense	254,105	321,397	411,458	471,342	531,193
Operating Expense	374,422	476,521	633,860	729,247	813,134
PPOP	**640,773**	**704,050**	**943,874**	**1,049,404**	**1,229,916**
Provisions	150,618	119,197	234,921	131,698	148,197
PBT	490,155	584,853	708,953	917,706	1,081,718
Tax Expense	120,541	143,766	100,830	229,427	270,430
PAT	**369,613**	**441,087**	**608,123**	**688,280**	**811,289**
Diluted EPS (INR)	66.8	79.3	85.8	90.5	106.6

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	7,608	7,608
Reserves & Surplus	2,395,384	2,796,411	4,368,334	5,143,305	5,773,280
Net worth	2,400,929	2,801,990	4,375,931	5,150,913	5,780,888
Borrowings	1,848,172	2,067,656	6,621,531	5,663,998	4,999,579
Deposits	15,592,174	18,833,947	23,797,863	27,629,258	32,255,348
Other liabilities & provisions	844,075	957,223	1,354,379	2,138,116	3,134,967
Total Equity & Liabilities	**20,685,351**	**24,660,815**	**36,176,231**	**40,608,812**	**46,197,309**
Uses of Funds					
Cash & Balance with RBI	1,412,000	1,171,608	1,786,832	1,934,048	2,257,874
Other Bank and Call Money	223,313	766,043	404,642	414,439	483,830
Net investments	4,555,357	5,170,014	7,024,150	8,012,485	9,354,051
Loans & advances	13,688,209	16,005,859	24,848,615	27,830,449	31,448,407
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**	**40,608,812**	**46,197,309**

Source: Company, KRChoksey Research

HDFC Bank Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
Growth Rates					
Advances (%)	20.8%	16.9%	55.2%	12.0%	13.0%
Deposits (%)	16.8%	20.8%	26.4%	16.1%	16.7%
Total assets (%)	18.4%	19.2%	46.7%	12.3%	13.8%
NII (%)	11.0%	20.6%	25.0%	17.8%	15.8%
Pre-provisioning profit (%)	11.7%	9.9%	34.1%	11.2%	17.2%
PAT (%)	18.8%	19.3%	37.9%	13.2%	17.9%
B/S Ratios					
Credit/Deposit (%)	87.8%	85.0%	104.4%	100.7%	97.5%
CASA (%)	48.2%	44.4%	38.2%	37.2%	37.6%
Advances/Total assets (%)	66.2%	64.9%	68.7%	68.5%	68.1%
Leverage - Total Assets to Equity	8.62	8.80	8.27	7.88	7.99
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%	2.2%	2.1%
Profitability					
NIM (%)	4.0%	4.3%	4.1%	3.8%	3.9%
RoA (%)	1.9%	1.9%	2.0%	1.8%	1.9%
RoE (%)	16.7%	17.0%	16.9%	14.4%	14.8%
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%	0.5%	0.5%
Per share data / Valuation					
EPS (INR)	66.7	79.3	80.0	90.5	106.6
BVPS (INR)	432.9	502.2	576.0	677.0	759.8
ABVPS (INR)	425.0	494.3	565.4	666.3	748.1
P/E (x)	22.1	20.3	18.1	16.7	14.1
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**
23-Jul-24	1,643	1,860	ACCUMULATE
23-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

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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