BUY HDFC Bank

Recuperation progressing well

BFSI - Banks ▸ Company Update ▸ **December 4, 2024**

TARGET PRICE (Rs): 2,000

HDFC Bank has largely outperformed its large private peers in the recent past, primarily on account of its relatively better margin, asset quality outcomes amid rising asset quality noises in unsecured loans. Separately, the bank has adopted the strategy to securitize loans (Rs90bn in 2Q and Rs123bn in Dec, leading to ~82bps reduction in LDR and a reduced PSL requirement), apart from slowing down credit growth and accelerating deposit growth to bring down its LDR to pre-merger levels (less than 90% from 100%) in due course and thus avoid regulatory friction. Bank is also planning to launch IPO of its NBFC subsidiary – HDB Fin to the tune of Rs125bn (including OFS of Rs100bn) in line with regulatory requirement and also to unlock value. Amid tight liquidity conditions, the noise of easing liquidity via CRR cut is on the rise, which if implemented by the RBI, could ease the squeeze and should be positive for HDFCB (50bps CRR cut could lead to 2-3bps benefit on NIMs). We retain BUY with a TP of Rs2,000 (valuing the bank at 2.2x Dec-26E ABV and subs valuation at Rs300/share).

HDFC Bank: Financial Snapshot

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	441,087	608,123	681,408	776,065	909,123
Loan growth (%)	16.9	55.2	7.4	10.0	12.0
NII growth (%)	20.6	25.0	13.8	11.7	15.2
NIM (%)	4.1	3.4	3.5	3.5	3.6
PPOP growth (%)	9.9	34.1	9.0	14.6	18.7
Adj. EPS (Rs)	79.1	80.0	89.3	101.7	119.1
Adj. EPS growth (%)	18.6	1.3	11.6	13.9	17.1
Adj. BV (Rs)	497.8	553.6	620.7	696.6	785.4
Adj. BVPS growth (%)	16.2	11.2	12.1	12.2	12.8
RoA (%)	1.9	1.8	1.8	1.9	1.9
RoE (%)	17.0	14.2	14.6	14.8	15.4
P/E (x)	21.0	19.1	17.1	15.0	12.8
P/ABV (x)	3.3	2.8	2.5	2.2	1.9

Source: Company, Emkay Research; FY25E onwards are merged financials

Securitizing loans, improving deposit growth to tame down LDR and thus reduce regulatory friction

HDFC Bank has slowed down its credit growth to sub-system level (7% YoY) as a part of its strategy to reduce the LDR from the peak of 114% last year and 100% in 2QFY25 to pre-merger levels (less than 90%) in due course. In this regard, the bank has been shedding e-HDFCL's corporate book and also securitizing loans (Rs90bn in 2Q and Rs123bn in Dec, potentially leading to ~82bps cumulative reduction in LDR and also lowering of the PSL requirement). Additionally, the bank has ramped-up deposit growth in 2Q, which possibly may moderate a bit in 3Q due to seasonal factors, and should accelerate meaningfully in 4Q. The bank has guided that its credit growth for full year FY25 shall be lower than the system, largely mimicking system growth in FY26 and outperforming the system in FY27. On the other hand, HDFC Bank has been able to effectively hold on to its margins for some time after a sharp fall following the merger. It hopes to remain range bound, benefiting from the improving portfolio mix toward retail, and gradual retiring of eHDFCL's high-cost debt in the medium-long run. That said, meeting PSL (including sub-targets), LCR (in case draft guidelines are imposed in toto), and the potential impact of rate cut (as and when it happens) on the bank's now relatively higher share of floating-rate portfolio, could cast some pressure on NIMs.

Slower growth in unsecured loans to limit asset quality disruption

Management indicated in its 2Q call that its unsecured loan portfolio has been exhibiting resilient outcomes as it slowed down growth over the past few quarters (refer to Exhibit 2 and 3), resulting in better-than-peer asset quality in 2Q, but they remain watchful of the cascading effect. The bank's specific PCR has fallen to 70%, whereas it has partly consumed contingent provision buffer (now stands at 1.1% of loans; Rs34/sh) in 2Q. We believe that HDFC Bank will possibly shore up specific PCR or build contingent provision buffer as it realizes one-off gains from the stake sale in HDB Financial Services.

We retain BUY with a TP of Rs2,000

We retain BUY with a TP of Rs2,000 based on 2.2x Dec-26E Standalone Bank ABV and subs valuations (Rs300/sh). Bank is also planning to launch IPO of its NBFC subsidiary – HDB Fin to the tune of Rs125bn (including OFS of Rs100bn) in line with regulatory requirement and also to unlock value.

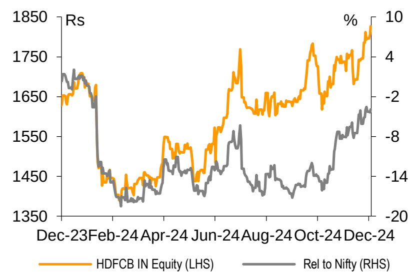
Target Price – 12M	Sep-25
Change in TP (%)	**-**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	9.5
CMP (03-Dec-24) (Rs)	1,826.3

Stock Data	**Ticker**
52-week High (Rs)	1,837
52-week Low (Rs)	1,363
Shares outstanding (mn)	7,642.9
Market-cap (Rs bn)	13,958
Market-cap (USD mn)	164,807
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	20
ADTV-3M (Rs mn)	34,441.7
ADTV-3M (USD mn)	406.7
Free float (%)	99.0
Nifty-50	24,457
INR/USD	84.7
Shareholding, Sep-24	
Promoters (%)	-
FPIs/MFs (%)	41.5/30.6

Price Performance

(%)	1M	3M	12M
Absolute	5.1	11.5	17.4
Rel. to Nifty	4.5	15.3	(2.7)

1-Year share price trend (Rs)



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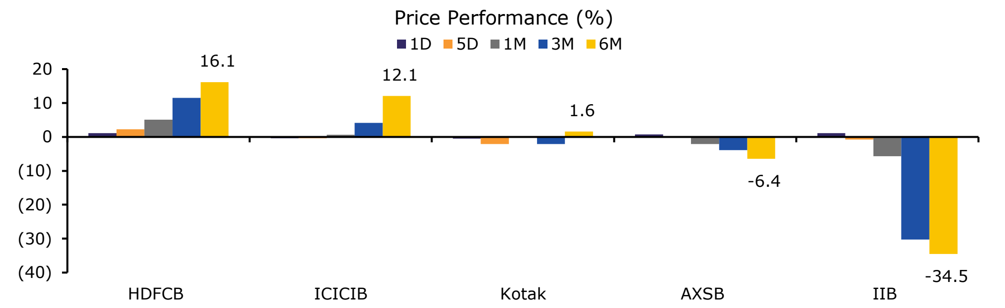
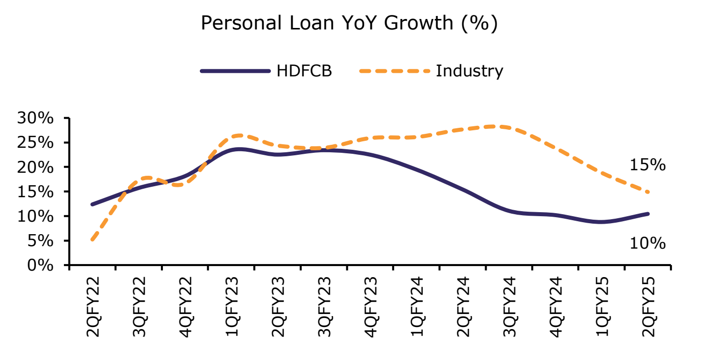
Story in charts

Exhibit 1: HDFC Bank has outperformed its peers of late



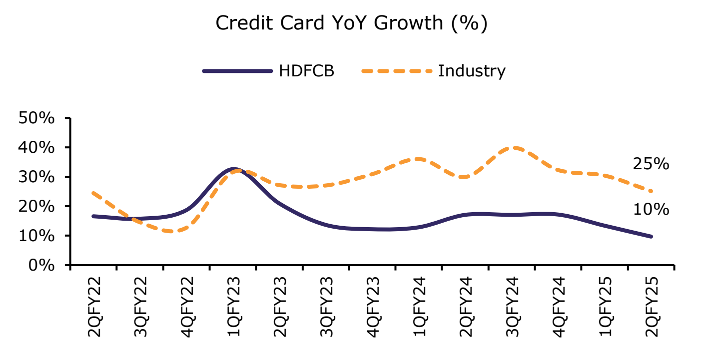
Source: Bloomberg, Emkay Research

Exhibit 2: HDFCB has pruned its PL growth much earlier vs other industry players…



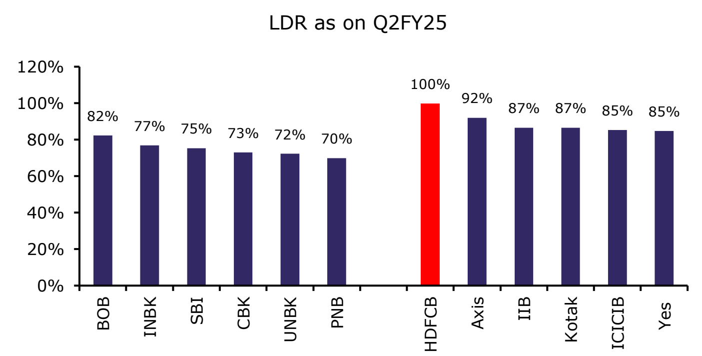
Source: RBI, Emkay Research

Exhibit 3: …and so also its credit card book, sensing ensuing asset quality pain and also its own LDR constraints



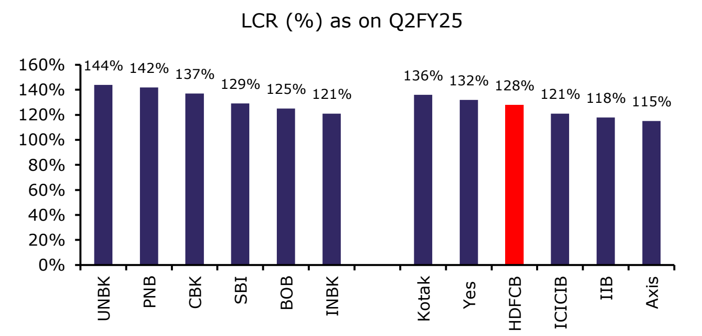
Source: RBI, Emkay Research

Exhibit 4: HDFCB has been focusing on cutting down its high LDR well below pre-merger levels (<90%) to allay regulatory concerns



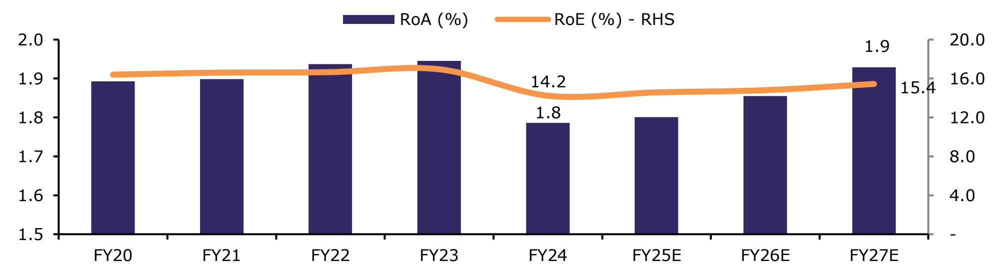
Source: Emkay Research

Exhibit 5: LCR is currently higher at 128% due to one-off timing differences arising on account of raising granular, retail-driven deposits, but it is expected to remain range-bound at ~110-120%



Source: Emkay Research

Exhibit 6: RoA shall recover gradually as merger synergies kick in, which along with better growth/leverage shall also help in improving its RoE



Source: Emkay Research

HDFC Bank: Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	1,615,856	2,583,406	3,023,865	3,242,879	3,551,238
Interest Expense	747,433	1,498,081	1,788,413	1,863,109	1,961,548
Net interest income	**868,422**	**1,085,325**	**1,235,452**	**1,379,770**	**1,589,690**
NII growth (%)	20.6	25.0	13.8	11.7	15.2
Other income	312,148	492,410	493,770	589,399	708,537
Total Income	**1,180,571**	**1,577,735**	**1,729,222**	**1,969,169**	**2,298,227**
Operating expenses	476,521	633,860	700,822	790,497	899,167
PPOP	**704,050**	**943,874**	**1,028,400**	**1,178,673**	**1,399,060**
PPOP growth (%)	9.9	34.1	9.0	14.6	18.7
Core PPOP	**715,361**	**828,613**	**981,912**	**1,122,888**	**1,337,696**
Provisions & contingencies	119,197	234,921	137,671	150,772	183,655
PBT	**584,853**	**708,953**	**890,729**	**1,027,901**	**1,215,405**
Extraordinary items	0	0	0	0	0
Tax expense	143,766	100,830	209,321	251,836	306,282
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**441,087**	**608,123**	**681,408**	**776,065**	**909,123**
PAT growth (%)	19.3	37.9	12.1	13.9	17.1
Adjusted PAT	**441,087**	**608,123**	**681,408**	**776,065**	**909,123**
Diluted EPS (Rs)	**79.1**	**80.0**	**89.3**	**101.7**	**119.1**
Diluted EPS growth (%)	18.6	1.3	11.6	13.9	17.1
DPS (Rs)	**19.1**	**22.5**	**21.0**	**24.0**	**28.0**
Dividend payout (%)	**24.0**	**24.4**	**23.5**	**23.6**	**23.5**
Effective tax rate (%)	24.6	14.2	23.5	24.5	25.2
Net interest margins (%)	4.1	3.4	3.5	3.5	3.6
Cost-income ratio (%)	40.4	40.2	40.5	40.1	39.1
Shares outstanding (mn)	5,579.7	7,596.9	7,630.8	7,630.8	7,630.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	5,580	7,597	7,631	7,631	7,631
Reserves & surplus	2,796,410	4,394,861	4,938,628	5,531,554	6,227,014
Net worth	**2,801,990**	**4,402,458**	**4,946,259**	**5,539,184**	**6,234,645**
Deposits	18,833,946	23,797,863	27,758,082	32,841,606	38,789,609
Borrowings	2,317,656	6,962,326	5,688,596	4,619,036	3,763,388
Interest bearing liab.	**21,151,602**	**30,760,189**	**33,446,678**	**37,460,642**	**42,552,997**
Other liabilities & prov.	**707,222**	**1,013,584**	**1,090,239**	**1,187,488**	**1,271,748**
Total liabilities & equity	**24,660,815**	**36,176,231**	**39,483,176**	**44,187,315**	**50,059,390**
Net advances	16,005,859	24,848,615	26,682,934	29,342,105	32,856,308
Investments	5,170,014	7,024,150	8,001,875	9,228,419	10,592,925
Cash, other balances	1,937,651	2,191,474	2,340,516	2,809,548	3,404,240
Interest earning assets	**23,113,524**	**34,064,239**	**37,025,325**	**41,380,072**	**46,853,473**
Fixed assets	80,165	113,990	124,876	133,916	143,543
Other assets	1,467,125	1,998,002	2,332,975	2,673,327	3,062,374
Total assets	**24,660,815**	**36,176,231**	**39,483,176**	**44,187,315**	**50,059,390**
BVPS (Rs)	503.7	579.5	648.2	725.9	817.0
Adj. BVPS (INR)	497.8	553.6	620.7	696.6	785.4
Gross advances	16,142,365	25,079,431	26,935,309	29,628,840	33,184,300
Credit to deposit (%)	85.0	104.4	96.1	89.3	84.7
CASA ratio (%)	44.4	38.2	34.8	33.3	33.4
Cost of deposits (%)	3.6	4.7	5.0	5.0	4.8
Loans-to-Assets (%)	64.9	68.7	67.6	66.4	65.6
Net advances growth (%)	16.9	55.2	7.4	10.0	12.0
Deposit growth (%)	20.8	26.4	16.6	18.3	18.1
Book value growth (%)	16.0	15.0	11.9	12.0	12.6

Source: Company, Emkay Research

Asset quality and other metrics

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	180,190.0	311,732.9	350,519.7	403,851.7	468,561.0
Net NPLs	43,684.2	80,917.3	98,145.5	117,117.0	140,568.3
GNPA ratio (%)	1.1	1.2	1.3	1.4	1.4
NNPA ratio (%)	0.3	0.3	0.4	0.4	0.4
Provision coverage (%)	75.8	74.0	72.0	71.0	70.0
Gross slippages	245,363.1	402,621.0	323,223.7	355,546.1	431,395.9
Gross slippage ratio (%)	1.5	1.6	1.2	1.2	1.3
LLP ratio (%)	0.8	0.6	0.5	0.5	0.6
NNPA to networth (%)	1.5	1.8	1.9	2.1	2.2
Capital adequacy					
Total CAR (%)	19.3	18.8	19.0	18.7	18.5
Tier-1 (%)	17.1	16.8	17.2	17.1	17.1
CET-1 (%)	16.4	16.3	16.7	16.6	16.6
RWA-to-Total Assets (%)	64.3	68.2	69.0	70.0	70.0
Miscellaneous					
Total income growth (%)	22.6	59.5	14.4	8.9	11.2
Opex growth (%)	27.3	33.0	10.6	12.8	13.7
Core PPOP growth (%)	15.8	15.8	18.5	14.4	19.1
PPOP margin (%)	36.5	30.7	29.2	30.8	32.8
PAT/PPOP (%)	62.7	64.4	66.3	65.8	65.0
LLP-to-Core PPOP (%)	16.7	28.4	14.0	13.4	13.7
Yield on advances (%)	8.6	8.9	9.5	9.3	9.1
Cost of funds (%)	3.9	5.8	5.6	5.3	4.9

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	21.0	19.1	17.1	15.0	12.8
P/B (x)	3.3	2.6	2.4	2.1	1.9
P/ABV (x)	3.3	2.8	2.5	2.2	1.9
P/PPOP (x)	13.3	12.5	11.5	10.0	8.4
Dividend yield (%)	1.0	1.2	1.2	1.3	1.5
DuPont-RoE split (%)					
NII/avg assets	3.8	3.2	3.3	3.3	3.4
Other income	1.4	1.4	1.3	1.4	1.5
Fee income	1.4	1.1	1.1	1.2	1.3
Opex	2.1	1.9	1.9	1.9	1.9
PPOP	**3.1**	**2.8**	**2.7**	**2.8**	**3.0**
Core PPOP	3.2	2.7	2.6	2.7	2.8
Provisions	0.5	0.7	0.4	0.4	0.4
Tax expense	0.6	0.3	0.6	0.6	0.6
RoA (%)	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**
Leverage ratio (x)	8.7	8.0	8.1	8.0	8.0
RoE (%)	**17.0**	**14.2**	**14.6**	**14.8**	**15.4**

Quarterly data

Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	273,852	284,713	290,768	298,371	301,139
NIM(%)	3.6	3.6	3.6	3.7	3.7
PPOP	226,939	236,473	292,742	238,846	247,057
PAT	159,761	163,725	165,119	161,748	168,210
EPS (Rs)	28.57	29.28	29.53	28.93	30.08

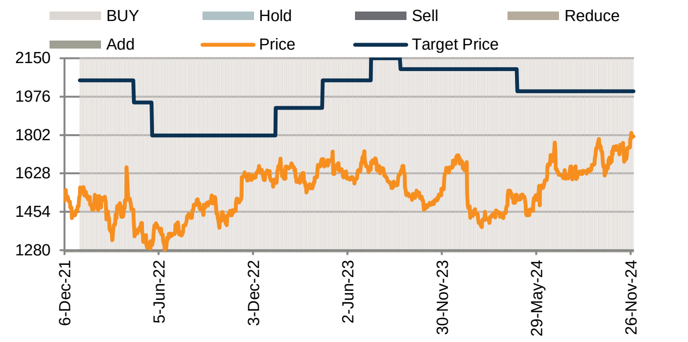
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
20-Oct-24	1,682	2,000	Buy	Anand Dama
21-Jul-24	1,607	2,000	Buy	Anand Dama
22-Apr-24	1,512	2,000	Buy	Anand Dama
17-Jan-24	1,538	2,100	Buy	Anand Dama
30-Nov-23	1,559	2,100	Buy	Anand Dama
17-Oct-23	1,541	2,100	Buy	Anand Dama
19-Sep-23	1,629	2,100	Buy	Anand Dama
11-Sep-23	1,632	2,100	Buy	Anand Dama
17-Jul-23	1,679	2,150	Buy	Anand Dama
25-May-23	1,610	2,050	Buy	Anand Dama
24-Apr-23	1,688	2,050	Buy	Anand Dama
15-Apr-23	1,692	2,050	Buy	Anand Dama
09-Mar-23	1,631	1,925	Buy	Anand Dama
15-Jan-23	1,601	1,925	Buy	Anand Dama
04-Jan-23	1,610	1,800	Buy	Anand Dama
16-Oct-22	1,439	1,800	Buy	Anand Dama
04-Oct-22	1,453	1,800	Buy	Anand Dama
17-Jul-22	1,362	1,800	Buy	Anand Dama
01-Jun-22	1,395	1,800	Buy	Anand Dama
23-May-22	1,304	1,800	Buy	Anand Dama
18-Apr-22	1,395	1,950	Buy	Anand Dama
05-Apr-22	1,608	2,050	Buy	Anand Dama
04-Apr-22	1,657	2,050	Buy	Anand Dama
16-Jan-22	1,545	2,050	Buy	Anand Dama
04-Jan-22	1,529	2,050	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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