

**HDFCB's management reiterated its unwavering focus on customer satisfaction, arresting employee attrition, upgrading tech, and reducing regulatory friction. It plans to cut its LDR to pre-merger level (~85%) from the current 100% by cannibalizing credit growth and accelerating deposit growth. Bank should grow at sub-system levels in FY25, mimic system in FY26, and outperform in FY27. HDFCB proactively reduced unsecured loan growth earlier on, but would be open to quality loans as others take a back seat. Falling LDR/higher CoF could put some pressure in the near term, but margins are expected to inch-up in the long run, led by better portfolio mix/lower share of borrowings (8-9% of liabilities). HDB Fin's listing should help meet current RBI guidelines, while the bank awaits clarity on Holdco norms for further stake cut. HDFCB's asset quality may witness intermittent volatility, but would outperform peers. With rising systemic stress, we believe HDFCB deserves a safety premium given healthy RoAs and provision/capital buffer; we retain BUY with a revised TP of Rs2,100.**

#### HDFC Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	441,087	608,123	676,213	776,552	905,463
Loan growth (%)	16.9	55.2	5.9	9.5	13.1
NII growth (%)	20.6	25.0	13.2	10.1	14.8
NIM (%)	4.1	3.4	3.5	3.5	3.6
PPOP growth (%)	9.9	34.1	8.5	13.9	18.5
Adj. EPS (Rs)	79.1	80.0	88.6	101.8	118.7
Adj. EPS growth (%)	18.6	1.3	10.7	14.8	16.6
Adj. BV (Rs)	497.8	553.6	619.8	695.4	785.5
Adj. BVPS growth (%)	16.2	11.2	12.0	12.2	12.9
RoA (%)	1.9	1.8	1.8	1.9	1.9
RoE (%)	17.0	14.2	14.5	14.8	15.4
P/E (x)	20.4	18.4	16.7	14.5	12.4
P/ABV (x)	3.2	2.7	2.4	2.1	1.9

Source: Company, Emkay Research

#### Customer, employee, tech and regulatory compliance remain key priorities

As a strategy, the bank plans to shift from a product-centric approach to a customer-centric one through five transformation pillars built on modern technology constructs through the 'Shift Right' strategy, thereby improving customer engagement and also reducing regulatory friction. Changing wheels (tech) of a moving car is always difficult, but the bank remains well focused on upgrading its tech stack internally, thus reducing dependence on vendors, and learning from its experience. Bank is upgrading its entire tech stack including CBS, cloud, mobile banking app, Payzapp app (>7.5mn customers), and reducing data center latency/backup; it believes that chat banking through WhatsApp is a preferred channel with ~9mn monthly interactions. SmartHub Vyapar for merchants too is gaining traction with >1.6mn merchants. Employee attrition has been a challenge across industry and also for the bank, but it has seen some relief on this front in the recent past. Bank indicates that attrition in the top 6 layers has been in single digit, while some attrition in the lower levels will be offset by tech solutions.

#### Deposit growth to anchor credit growth; focus remains on margin protection

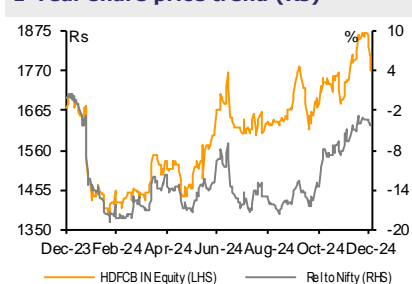
HDFC Bank has slowed down its credit growth to sub-system level (7% YoY) as a part of its strategy to reduce the LDR from the peak of 114% last year and 100% in 2QFY25 to pre-merger levels (~85%) in due course. Bank has been shedding e-HDFCL's corporate book and also securitizing retail loans (Rs90bn in 2Q and Rs123bn in Dec'24), potentially leading to ~82bps cumulative reduction in LDR and also lowering the PSL burden. On the other hand, the bank has been focusing on mobilizing retail deposits through enhancing phygital network and thus positioning itself for credit growth (including unsecured loans), when others are slowing down. HDFCB expects sub-system credit growth in FY25, mimic system growth in FY26, and outperform the system in FY27 as the regulatory drag is now behind. Bank has managed its margins well over the past 2-3 quarters amid pressure seen across banks, but falling LDR, meeting PSL (including sub-targets), new LCR norms, 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. However, the bank remains hopeful of better margin trajectory in the long run aided by better portfolio mix and funding profile (reduce borrowings to 8-9% of overall liabilities from 15-16%).

Target Price – 12M	Sep-25
<b>Change in TP (%)</b>	<b>5.0</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	18.5
CMP (20-Dec-24) (Rs)	1,771.5

Stock Data	Ticker
52-week High (Rs)	1,880
52-week Low (Rs)	1,363
Shares outstanding (mn)	7,644.9
Market-cap (Rs bn)	13,543
Market-cap (USD mn)	159,288
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	19
ADTV-3M (Rs mn)	33,347.8
ADTV-3M (USD mn)	392.2
Free float (%)	99.0
Nifty-50	23,588
INR/USD	85.0
<b>Shareholding, Sep-24</b>	
Promoters (%)	-
FPIs/MFs (%)	41.5/30.6

Price Performance			
(%)	1M	3M	12M
Absolute	1.7	1.7	6.9
Rel. to Nifty	1.4	11.2	(4.1)

#### 1-Year share price trend (Rs)



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**Asset quality may continue to outperform peers**

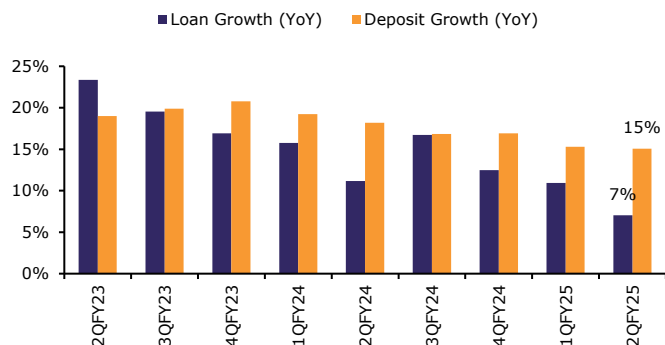
Management indicated in its Q2FY25 call that its unsecured loan portfolio has been exhibiting resilient outcomes as it slowed growth over the past few quarters, resulting in better-than-peer asset quality and one of the lowest GNPA ratio among peers at 1.36%. However, the management believes that the cascading effect of systemic stress could potentially bring some volatility in its retail portfolio, but is unlikely to have a material impact, and thus should outperform its peers. The bank's specific PCR has fallen to 70%, whereas it has partly consumed contingent provision buffer (now at 1.1% of loans; Rs34/sh) in Q2FY25. 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, which in a way should keep the bank's credit cost lower for longer, partly offsetting the impact on margins and TPD fees (1.3% of total income), given the recent regulatory/government noise around reducing dependence on banca partners.

**We retain BUY with a revised TP of Rs2,100**

We have fine-tuned our earning estimates by trimming FY25 PAT by 1%, adjusting for impact on banca fees and slower growth as the bank plans to accelerate progression toward pre-merger LDR. However, with systemic stress on the rise, we believe HDFCB remains a defensive play offering healthy RoA delivery around 1.8-1.9% with strong CET 1 >16% and contingent provision buffer (1.1 % of loans), thereby deserving a safety premium within the banking sector. Thus, we retain BUY with a revised TP of Rs2,100 (earlier Rs2,000) based on 2.4x Dec-26E (earlier 2.2x) 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), which should further improve regulatory compliance as well as unlock value for the shareholders.

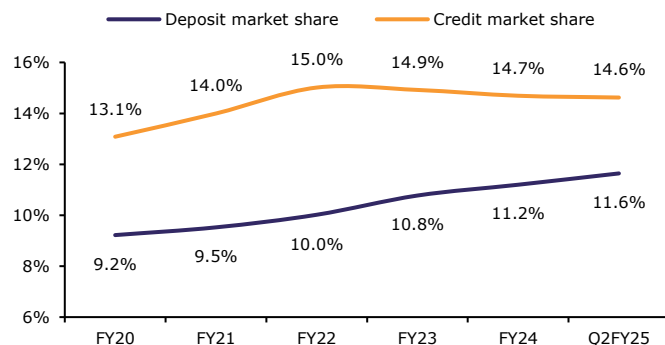
## Story in Charts

**Exhibit 1: Slower growth, shedding of eHDFCL corporate book, and securitization of retail loans to hurt credit growth in the near term**



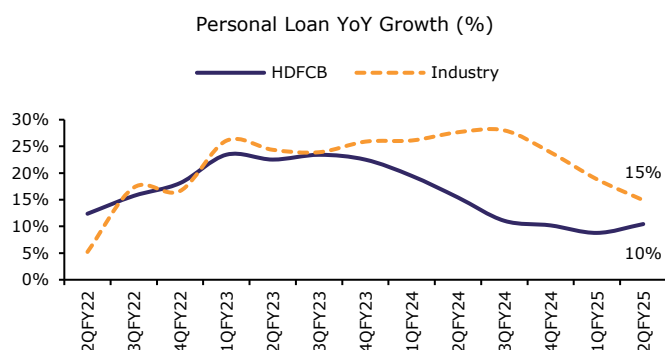
Source: Emkay Research

**Exhibit 2: HDFCB has lost market share in credit, but has gained deposits market share**



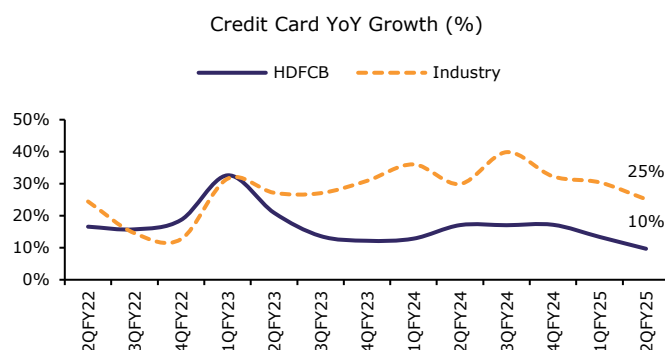
Source: Emkay Research

**Exhibit 3: HDFCB has pruned its PL growth much earlier vs other industry players...**



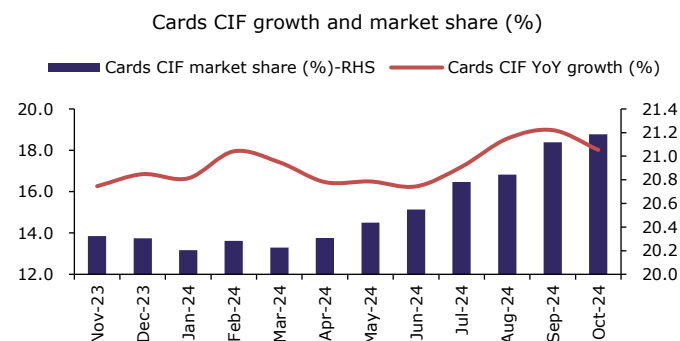
Source: RBI, Emkay Research

**Exhibit 4: ...and so also its credit card book, sensing ensuing asset quality pain and also its own LDR constraints**



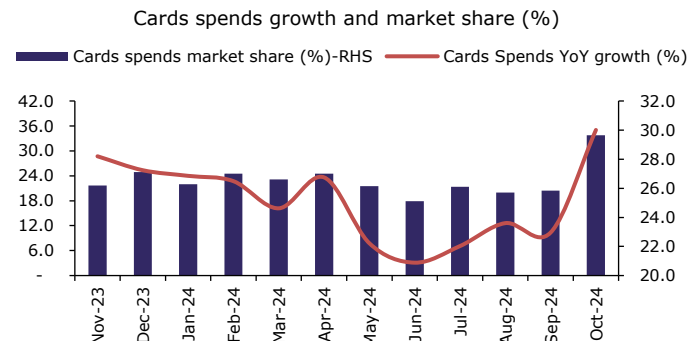
Source: RBI, Emkay Research

**Exhibit 5: ...but bank has been gradually gaining market share in Card-in-force...**



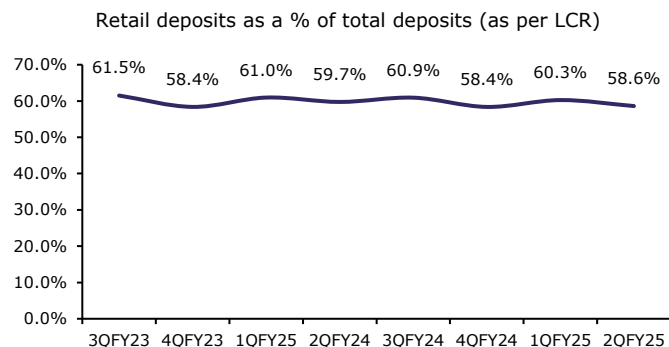
Source: Emkay Research

**Exhibit 6: ...and also in spends**



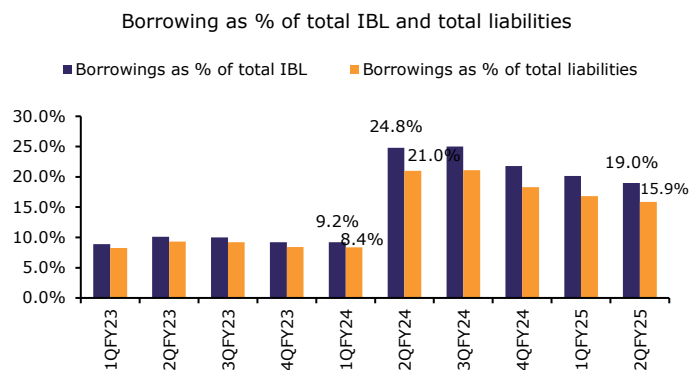
Source: Emkay Research

**Exhibit 7: HDFCB has consistently upheld its retail deposits share within the range of 58-62%, despite the competitive deposit landscape**



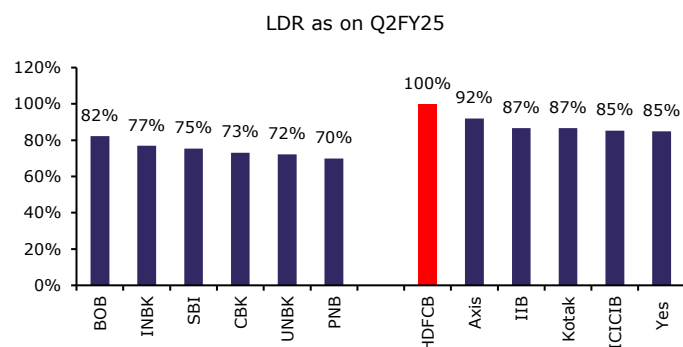
Source: Company, Emkay Research

**Exhibit 8: Bank remains hopeful in reducing its borrowings as a % of total liabilities to pre-merger levels (8-9%)**



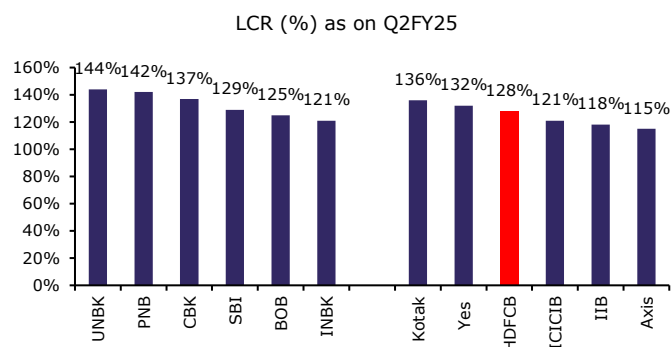
Source: Company, Emkay Research

**Exhibit 9: HDFCB has been focusing on cutting down its high LDR well below pre-merger levels (<90%) to allay regulatory concerns**



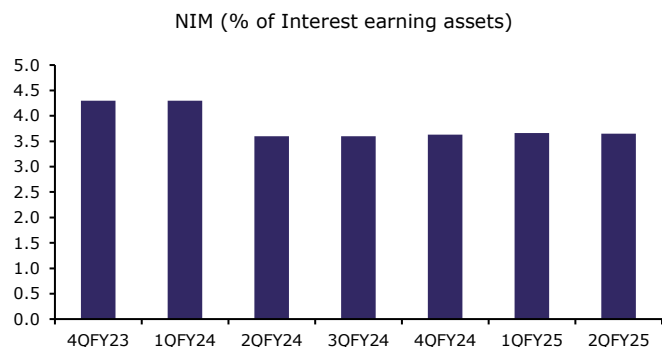
Source: Emkay Research

**Exhibit 10: 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%**



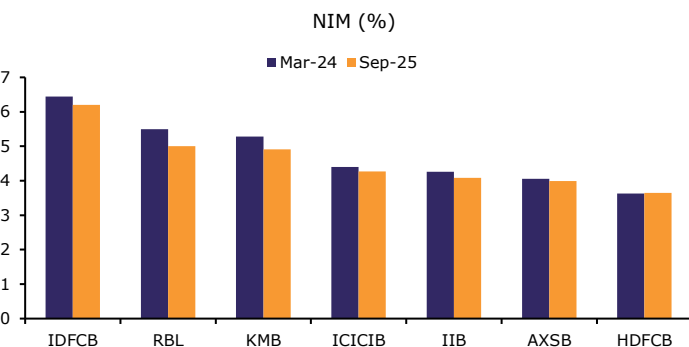
Source: Emkay Research

**Exhibit 11: Bank has seen margin stability for past few quarters...**

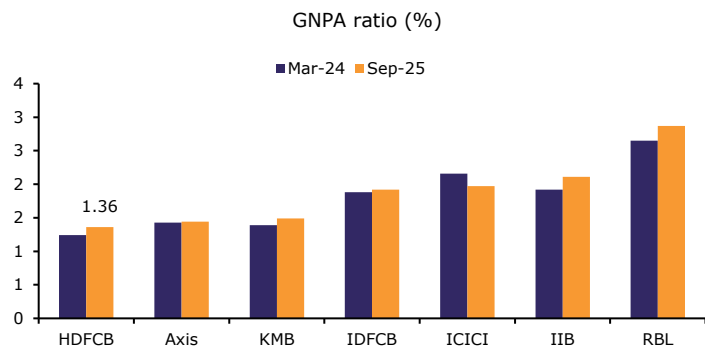


Source: Company, Emkay Research

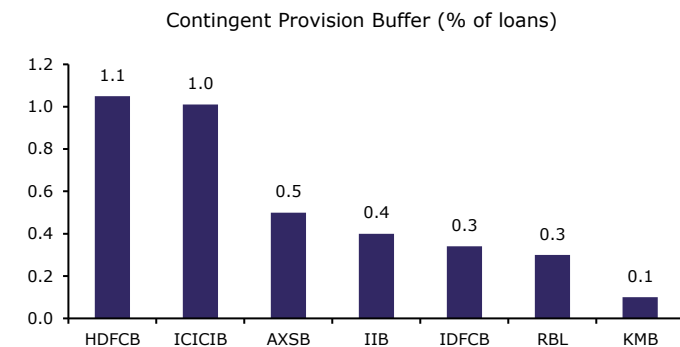
**Exhibit 12: ...while peers have seen contraction**



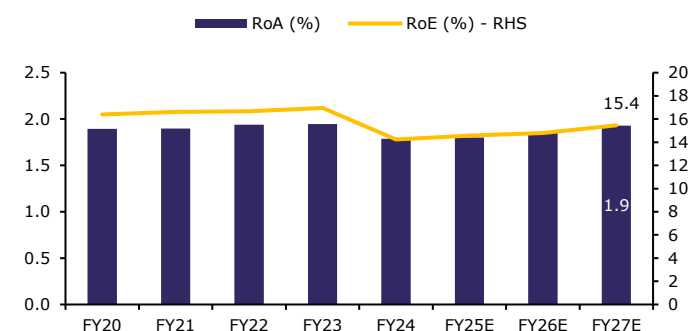
Source: Company, Emkay Research

**Exhibit 13: HDFCB has one of the lowest GNPA ratio...**

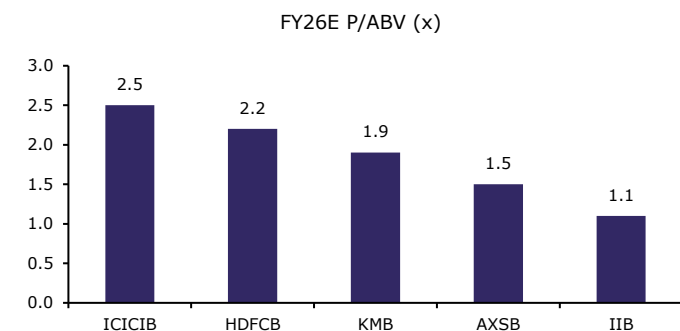
Source: Emkay Research

**Exhibit 14: ...while holding healthy contingent provision buffer**

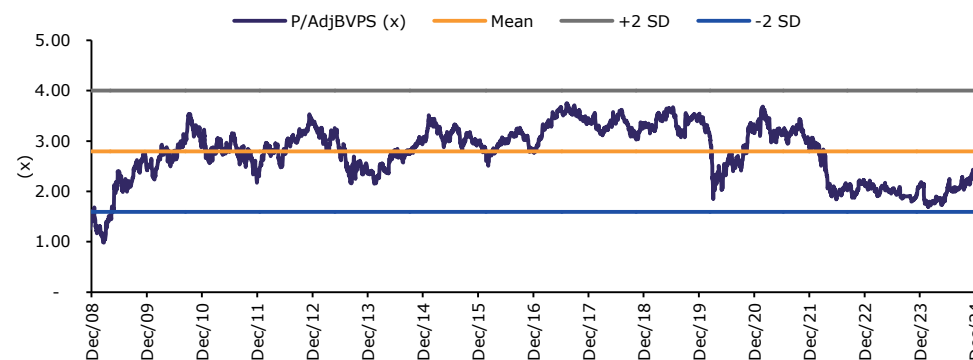
Source: Emkay Research

**Exhibit 15: We expect HDFCB to witness gradual normalization of return ratios**

Source: Emkay Research

**Exhibit 16: HDFCB deserves safety premium vs peers (ICICI), given its healthy capital/provision buffer**

Source: Emkay Research

**Exhibit 17: The bank currently trades at 1.9x 1YF P/ABV**

Source: Bloomberg, 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	3,017,215	3,232,033	3,531,210
Interest Expense	747,433	1,498,081	1,788,413	1,878,605	1,977,473
Net interest income	868,422	1,085,325	1,228,802	1,353,427	1,553,737
NII growth (%)	20.6	25.0	13.2	10.1	14.8
Other income	312,148	492,410	493,425	594,241	714,447
Total Income	1,180,571	1,577,735	1,722,228	1,947,668	2,268,184
Operating expenses	476,521	633,860	697,827	781,169	885,444
PPOP	704,050	943,874	1,024,401	1,166,499	1,382,740
PPOP growth (%)	9.9	34.1	8.5	13.9	18.5
Core PPOP	715,361	828,613	977,913	1,108,390	1,318,820
Provisions & contingencies	119,197	234,921	138,145	140,671	172,228
PBT	584,853	708,953	886,256	1,025,828	1,210,512
Extraordinary items	0	0	0	0	0
Tax expense	143,766	100,830	210,043	249,276	305,049
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	441,087	608,123	676,213	776,552	905,463
PAT growth (%)	19.3	37.9	11.2	14.8	16.6
Adjusted PAT	441,087	608,123	676,213	776,552	905,463
Diluted EPS (Rs)	79.1	80.0	88.6	101.8	118.7
Diluted EPS growth (%)	18.6	1.3	10.7	14.8	16.6
DPS (Rs)	19.1	22.5	21.0	24.0	28.0
Dividend payout (%)	24.0	24.4	23.7	23.6	23.6
Effective tax rate (%)	24.6	14.2	23.7	24.3	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	39.0
Shares outstanding (mn)	5,579.7	7,596.9	7,630.8	7,630.8	7,630.8

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	359,983.2	408,887.5	430,268.6
Net NPLs	43,684.2	80,917.3	100,795.3	122,666.3	129,080.6
GNPA ratio (%)	1.1	1.2	1.4	1.4	1.3
NNPA ratio (%)	0.3	0.3	0.4	0.4	0.4
Provision coverage (%)	75.8	74.0	72.0	70.0	70.0
Gross slippages	245,363.1	402,621.0	321,668.8	349,316.3	427,621.4
Gross slippage ratio (%)	1.5	1.6	1.2	1.2	1.3
LLP ratio (%)	0.8	0.6	0.6	0.5	0.6
NNPA to networth (%)	1.5	1.8	2.0	2.2	2.0
Capital adequacy					
Total CAR (%)	19.3	18.8	19.2	18.7	18.8
Tier-1 (%)	17.1	16.8	17.3	17.1	17.4
CET-1 (%)	16.4	16.3	16.7	16.6	16.9
RWA-to-Total Assets (%)	64.3	68.2	69.0	70.0	70.0
Miscellaneous					
Total income growth (%)	22.6	59.5	14.1	9.0	11.0
Opex growth (%)	27.3	33.0	10.1	11.9	13.3
Core PPOP growth (%)	15.8	15.8	18.0	13.3	19.0
PPOP margin (%)	36.5	30.7	29.2	30.5	32.6
PAT/PPOP (%)	62.7	64.4	66.0	66.6	65.5
LLP-to-Core PPOP (%)	16.7	28.4	14.1	12.7	13.1
Yield on advances (%)	8.6	8.9	9.5	9.3	9.1
Cost of funds (%)	3.9	5.8	5.6	5.3	5.0

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	4,933,433	5,526,846	6,218,647
Net worth	2,801,990	4,402,458	4,941,064	5,534,477	6,226,277
Deposits	18,833,946	23,797,863	27,758,082	33,088,890	38,196,409
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	37,707,926	41,959,796
Other liabilities & prov.	707,222	1,013,584	780,796	858,338	968,242
Total liabilities & equity	24,660,815	36,176,231	39,168,539	44,100,740	49,154,315
Net advances	16,005,859	24,848,615	26,325,009	28,823,474	32,592,768
Investments	5,170,014	7,024,150	8,171,417	9,807,313	10,425,156
Cash, other balances	1,937,651	2,191,474	2,207,481	2,639,555	2,937,186
Interest earning assets	23,113,524	34,064,239	36,703,906	41,270,342	45,955,109
Fixed assets	80,165	113,990	124,876	133,916	143,543
Other assets	1,467,125	1,998,002	2,339,757	2,696,483	3,055,664
Total assets	24,660,815	36,176,231	39,168,539	44,100,740	49,154,315
BVPS (Rs)	503.7	579.5	647.5	725.3	815.9
Adj. BVPS (INR)	497.8	553.6	619.8	695.4	785.5
Gross advances	16,142,365	25,079,431	26,584,197	29,109,695	32,893,955.7
Credit to deposit (%)	85.0	104.4	94.8	87.1	85.3
CASA ratio (%)	44.4	38.2	34.8	33.3	34.1
Cost of deposits (%)	3.6	4.5	5.0	5.0	4.8
Loans-to-Assets (%)	64.9	68.7	67.2	65.4	66.3
Net advances growth (%)	16.9	55.2	5.9	9.5	13.1
Deposit growth (%)	20.8	26.4	16.6	19.2	15.4
Book value growth (%)	16.0	15.0	11.7	12.0	12.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	20.4	18.4	16.7	14.5	12.4
P/B (x)	3.2	2.5	2.3	2.0	1.8
P/ABV (x)	3.2	2.7	2.4	2.1	1.9
P/PPOP (x)	12.7	11.8	11.0	9.6	8.1
Dividend yield (%)	1.1	1.3	1.2	1.4	1.6
DuPont-RoE split (%)					
NII/avg assets	3.8	3.2	3.3	3.3	3.3
Other income	1.4	1.4	1.3	1.4	1.5
Fee income	1.4	1.1	1.1	1.2	1.4
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	0.3	0.4
Tax expense	0.6	0.3	0.6	0.6	0.7
RoA (%)	1.9	1.8	1.8	1.9	1.9
Leverage ratio (x)	8.7	8.0	8.1	7.9	7.9
RoE (%)	17.0	14.2	14.5	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

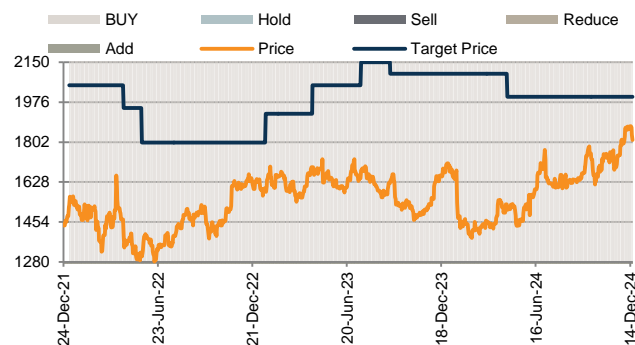
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Dec-24	1,860	2,000	Buy	Anand Dama
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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