MIRAE ASSET Sharekhan

HDFC Bank

Gearing up in transition, risk reward attractive

Stock Update

Company Update

Banks	Sharekhan code: HDFCBANK
Reco/View: Buy ↔	CMP: Rs. 1,798
	Price Target: Rs. 2,100 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Focus remains on higher retail deposit mobilisation along with partial sell down of loans as bank intends to bring down LDR at a faster pace to a normalised level at 85-87%.
- Going forward, improvement in system liquidity along with gradual improvement in asset/liability mix would pave way for margin improvement. However, there could be transient volatility in NIMs due to lower interest rate cycle; but over the period, margins will remain steady.
- Despite industry-wide stress in the unsecured retail segment, the bank is confident on the quality of the portfolio, given it was already going slow in the past two years.
- The stock trades at 2.3x/2.1x/1.8x its FY2025E/FY2026E/FY2027E core BV estimates. We maintain BUY with a revised PT of Rs. 2,100. Risk reward is attractive. Retail deposit mobilisation and NIM progression remain key catalysts.

HDFC Bank's key focus remains on higher retail deposit mobilisation. The bank intends to bring down its CD ratio at a faster pace to 85-87% level; and as and when the credit cycle turns over the next couple of quarters, the bank wants to be well-positioned to capture the incremental growth that it has seen in the pre-merger period. We believe improvement in liability franchise would be faster than anticipated. Improvement in system liquidity going forward along with gradual improvement in asset/liability mix would also pave way for margin improvement. NIMs are expected to improve by 20-25bps over the next two years. However, there could be transient volatility in NIMs due to lower interest rate cycle; but over the period, margins will remain steady. Loan book would grow slower than the system in FY2025E. The bank is expected to grow at par with the system in FY2026E; and from FY2027, it should see faster growth than the system. Overall, the outlook on asset quality is stable. Despite industry-wide stress in the unsecured retail segment, the bank is confident on the quality of the portfolio, given it was already going slow in the past two years.

Focus on steady deposit growth: Despite competitive intensity, the bank is delivering healthy deposit growth along with market share gains (up by ~40 bps from FY2024 at ~11.6%), driven by retail term deposits with price discipline. The bank continues to add new relationships and the relationship value of the recently acquired customers (especially SA customers) continues to inch up at a healthy pace. About 84% of the bank's total deposits come from retail. The bank intends to bring down its CD ratio at a faster pace to 85-87% level; and as and when the credit cycle turns over the next couple of quarters, the bank wants to be well-positioned to capture the incremental growth that it has seen in the pre-merger period. We believe improvement in liability franchise would be faster than anticipated.

Loan growth to remain calibrated and NIMs to gradually improve: We expect the bank to deliver 8-10% loan growth in the near term, driven by higher focus on balance sheet management. Management remains focused on steadily bringing the CD ratio lower as early as possible while maintaining profitable growth. Consequently, loan book would grow slower than the system in FY2025E. It is expected to grow at par with the system in FY2026E; and from FY2027, it should see faster growth than the system. Going forward, improvement in system liquidity along with gradual improvement in asset/liability mix would also pave way for margin improvement. NIMs are expected to improve by 20-25bps over the next two years. However, there could be transient volatility in NIMs due to lower interest rate cycle; but over the period, margins will remain steady.

No concern on asset quality: The overall asset-quality outlook is stable. Despite industry-wide stress in the unsecured retail segment, the bank is confident on the quality of the portfolio, given it was already going slow in the past two years.

Our Call

Valuation: We maintain our BUY rating on the stock with a revised PT of Rs. 2,100: The stock trades at 2.3x/2.1x/1.8x its FY2025E/FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth in the near term, which should bring down the LDR to normalised level. FY2025 and FY2026 would be the years of transition. The bank is confident of regaining its growth trajectory and NIM once this transition period is complete. We retain our BUY rating on the stock with a revised PT of Rs. 2,100, given better visibility of key business metrics and valuing the subsidiaries at Rs. 252 per share. The bank is also planning to launch IPO of HDB Financial Services (its NBFC subsidiary), which will lead to value unlocking and meet regulatory requirements. Key monitorables remain: NIM progression and retail deposit mobilisation.

Key Risks

Slower retail deposit mobilisation; lower margins and economic slowdown; tech outage.

Valuation Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Interest Income	86,842	1,08,532	1,30,937	1,41,446	1,68,198
Net profit	44,109	60,812	68,944	74,988	84,495
EPS (Rs.)	78.9	80.0	89.6	97.4	109.1
P/E (x)	19.6	19.4	17.3	15.9	14.2
P/BV (x)	3.1	2.7	2.3	2.1	1.8
RoE	17.0	16.9	14.6	13.8	13.5
RoA	1.9	2.0	1.8	1.8	1.8

Source: Company; Mirae Asset Sharekhan estimates

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		↔	

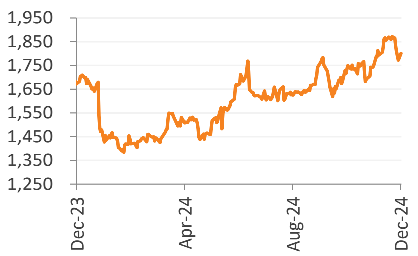
Company details

Market cap:	Rs. 13,74,792 cr
52-week high/low:	Rs. 1880/1363
NSE volume: (No of shares)	202.2 lakh
BSE code:	500180
NSE code:	HDFCBANK
Free float: (No of shares)	756.9 cr

Shareholding (%)

Promoters	
FII	48.0
DII	35.3
Others	16.7

Price chart



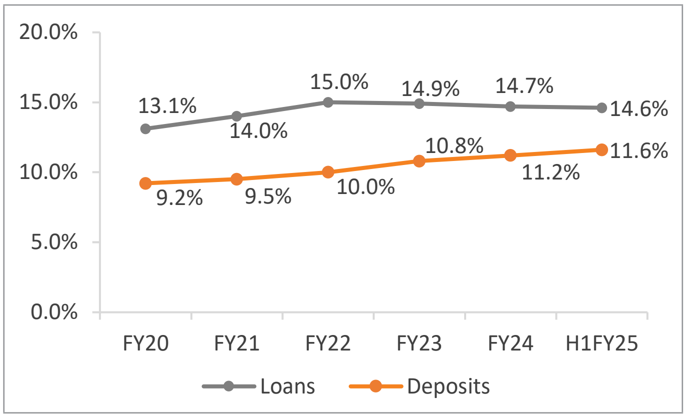
Price performance

(%)	1m	3m	6m	12m
Absolute	3.0	1.7	7.5	7.6
Relative to Sensex	3.8	9.3	6.1	-2.4

Source: Mirae Asset Sharekhan Research, Bloomberg

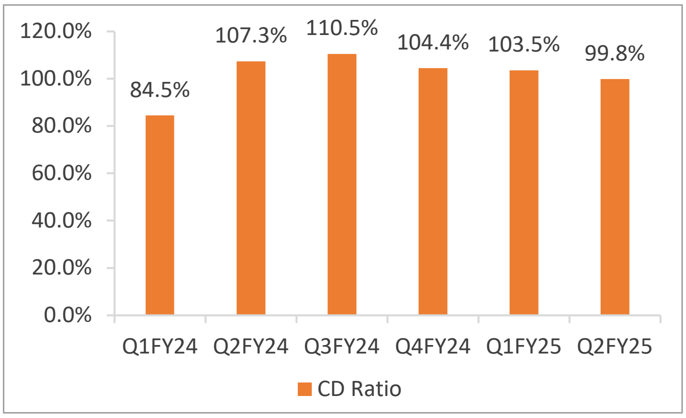
Financials in charts

Trend in Market share



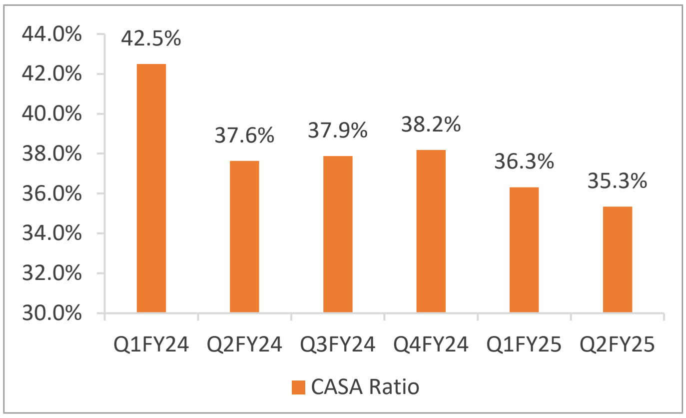
Source: Company; Mirae Asset Sharekhan Research

Trend in CD ratio



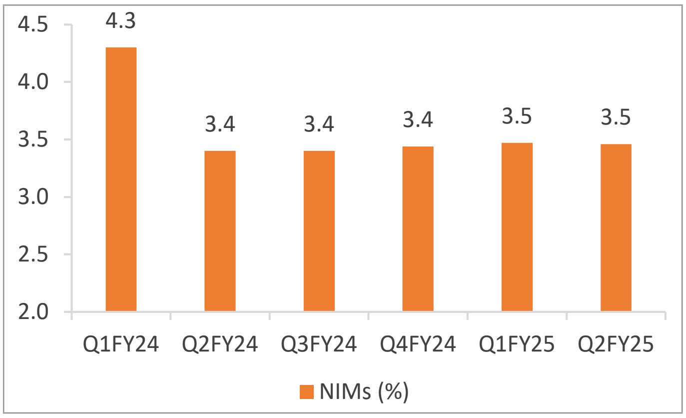
Source: Company; Mirae Asset Sharekhan Research

Trend in CASA Ratio



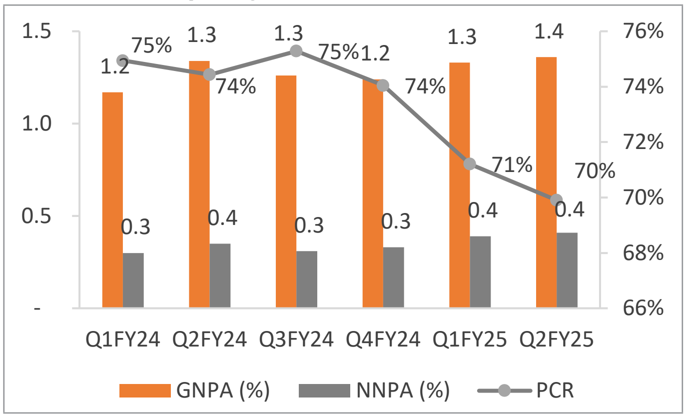
Source: Company; Mirae Asset Sharekhan Research

Trend in NIMs



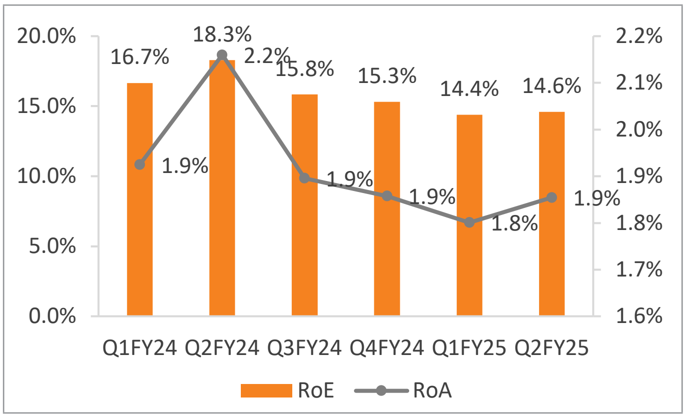
Source: Company; Mirae Asset Sharekhan Research

Trend in Asset quality



Source: Company; Mirae Asset Sharekhan Research

Trend in Return ratio



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Deposit mobilisation and asset quality to be in focus

System credit growth is slowing and has declined to ~10.6% y-o-y from 16.4% in FY2024 as per the latest fortnight data, mainly driven by slower deposit growth and a high CD ratio. Deposit growth at 10.8% has started to outpace loan growth marginally. However, deposit growth continues to remain range bound and is mainly led by time deposits rather than CASA. Margins are expected to be under pressure due to elevated cost of term deposits, while a reversal in the rate cycle should further lead to yield pressure. Overall, the asset-quality outlook is stable to positive for the sector, except for the unsecured retail loans and MFI segment. We believe banks with a robust capital base, strong asset quality, and healthy retail deposit franchises are well-placed to capture growth opportunities.

■ Company Outlook – In a transition phase, with a strong execution track record

Improvement in NIMs, strong retail deposit mobilisation resulting in the normalisation of CD ratio in turn leading to a sustainable loan growth path, building strong reach and distribution, broadening customer base, and enabling technology to remain key monitorables in the near term. The bank has a track record of strong execution capabilities. The bank has consistently delivered a superior performance, and its track record is unmatched in the sector.

■ Valuation – We maintain our BUY rating on the stock with a revised PT of Rs. 2,100

The stock trades at 2.3x/2.1x/1.8x its FY2025E/FY2026E/FY2027E core BV estimates. Deposit growth would continue to outpace loan growth in the near term, which should bring down the LDR to normalised level. FY2025 and FY2026 would be the years of transition. The bank is confident of regaining its growth trajectory and NIM once this transition period is complete. We retain our BUY rating on the stock with a revised PT of Rs. 2,100, given better visibility of key business metrics and valuing the subsidiaries at Rs. 252 per share. The bank is also planning to launch IPO of HDB Financial Services (its NBFC subsidiary), which will lead to value unlocking and meet regulatory requirements. Key monitorables remain: NIM progression and retail deposit mobilisation.

SOTP Valuation

Subsidiary/Associate/JV	Per share value (Rs.)
Core Bank Value (A)	1,848
HDB Financial Services	89
HDFC Securities	21
HDFC AMC	73
HDFC Life	123
HDFC ERGO	9
Sum of subs/ associates	**315**
(-) Holding Co. Discount - 20%	
Value of subs/ associates post holdco discount (B)	**252**
Fair Value (A+B)	**2,100**

Source: Company; Mirae Asset Sharekhan estimates

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFC Bank	1,798	13,74,792	17.3	15.9	2.3	2.1	14.6	13.8	1.8	1.8
ICICI Bank	1,298	9,16,131	16.6	15.0	2.7	2.3	17.4	16.3	2.3	2.2
Axis Bank	1,079	3,34,055	11.2	9.8	1.7	1.4	16.1	15.9	1.7	1.7

Source: Company; Mirae Asset Sharekhan Research

About the 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.

Investment theme

HDFC Bank 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 growth trajectory once the transition period of the merger is complete over the next 12-15 months.

Key Risks

Slower deposit mobilisation; lower margins and 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	5.03
2	Life Insurance Corp of India	4.64
3	Vanguard Group Inc.	3.46
4	BlackRock Inc.	2.85
5	ICICI Prudential Asset Management	2.58
6	HDFC Asset Management Co. Ltd.	2.34
7	FMR LLC	2.21
8	Republic of Singapore	2.08
9	UTI Asset Management Co. Ltd.	1.75
10	Nippon Life AMC Ltd.	1.63

Source: Bloomberg

Understanding the Mirae Asset 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 detoriating 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: Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.