

**HDFC BANK LIMITED**

Focus on steady deposit growth; optimistic outlook

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HDFC Bank reported a decent quarterly performance with a modest growth in its loan book and strong growth in deposits, driven by continued focus on improving its credit-deposit (C/D) ratio. As a result, the bank reported a lower NIM on YoY basis and is expected to remain range bound in the medium term. Moreover, despite the deterioration in the bank's asset quality, it is expected to remain resilient in a challenging macro environment with prudent provisioning policies and tightening underwriting. Furthermore, with a better asset mix, adequate capital, innovative digital solutions and a broad branch network the bank is well-positioned to capture long-term growth opportunities. Hence, with an optimistic outlook, we assign a BUY rating on the stock, based on 2.2x FY27E BVPS with a target price of ₹1,895.

**Benign operational performance**

In Q3FY25, HDFC bank's net-interest income (NII) grew 7.7% YoY (+1.8% QoQ) to ₹307 bn, driven by growth in higher yield assets. The bank's net interest margin (NIM) remained stable YoY at 3.6%, as cost of funds remain at elevated levels due to tight pricing competition and not able to pass on the same to the borrowers, therefore, declining sequentially. Further, pre-provision operating profit increased 5.7% YoY to ₹250 bn, led by increased non-interest income (+2.8% YoY) and stable operating expenses with cost-to-income (C/I) at 40.6% (up 30 bps YoY). Subsequently, PAT grew 2.2% YoY to ₹167 bn, on lower provisions (₹32 bn vs. ₹42 bn in Q3FY24).

**Calibrated growth in balance sheet**

During the quarter, advances grew (+3% YoY), led by decent growth in retail loans (+10.0% YoY), commercial and rural banking (CRB) loans (+11.6% YoY). However, corporate and other loans de-grew 10.4% YoY. The bank continued to increase its deposits (+15.8% YoY), of which current account deposits and saving deposits both grew 4.4% YoY; term deposits increased 22.7% YoY, driven by a high interest rate scenario. As a result, the share of CASA deposits in total deposits stood at 34.0% (38% in QFY24). Moreover, asset quality slightly deteriorated, with gross non-performing assets (NPAs) and net NPAs at 1.42% and 0.46%, respectively (vs. 1.36% and 0.41% in Q2FY25), led by higher slippages from agriculture sector due to seasonality.

Key Financials (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Loan & Advances	16,006	24,849	26,837	29,923	33,753
Net Interest Income	868	1,085	1,313	1,440	1,616
PPP ex Except. Items	704	944	1,052	1,182	1,379
Reported Profits	441	608	685	775	901
Earnings Per Share (₹)	79.1	80.0	90.1	102.0	118.5
P/E (x)	21.1	20.8	18.5	16.3	14.0
Adj. BV	498.3	570.7	660.8	762.8	881.4
P/ABV (x)	3.3	2.9	2.5	2.2	1.9
Gross NPAs Ratio (%)	1.1	1.2	1.3	1.2	1.1
Adj. RoA	1.9	2.0	1.8	1.8	1.9
Adj. RoE	17.0	16.9	14.5	14.2	14.3

**BUY**

Current Market Price (₹)	1,666
12 M Price Target (₹)	1,895
Potential upside (%)	14

**Stock Data**

Sector:	Banking
FV (₹) :	1
Market Cap Full (₹ bn) :	12,787
Market Cap Free Float (₹ bn) :	12,698
52-Week High / Low (₹) :	1,880 / 1,364
BSE Code / NSE Symbol :	500180 / HDFCBANK
Bloomberg :	HDFCB IN
Sensex / Nifty:	76,405 / 23,155

**Shareholding Pattern**

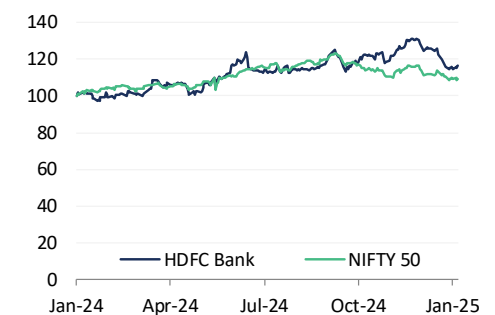
(%)	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	0.00	0.00	0.00	0.00
FPIs	49.20	48.01	47.17	47.83
MFs	23.93	24.57	24.83	23.17
Insurance	7.99	8.27	8.21	8.11
Others	18.88	19.15	19.79	20.89

Source: BSE

**Price Performance (%)**

(%)	1M	3M	6M	12M
HDFC Bank	-6.0%	-2.8%	1.4%	16.7%
Nifty 50	-1.8%	-5.4%	-5.5%	9.0%

\* To date / current date : January 22, 2025

**HDFC Bank vs Nifty 50**

### Key Concall highlights

- Management expects loan growth to be below system growth in FY25, in-line with the system in FY26, and exceed the system in FY27. Deposit growth is expected to continue outpacing loan growth.
- NIM is expected to remain volatile in the near term due to the potential impact of rate cuts and priority sector lending (PSL) requirements, but over the period it is expected to remain steady with aligned asset-liability duration.
- Provision coverage ratio (PCR) at ~68%, however, the bank holds healthy provisions (floating + contingent) of ₹259b or 1.1% of loans.
- The bank expanded 51 new branches this quarter, 1,052 over the last year and 405 over last three quarters of FY25, taking the total count to 9,143. It plans to grow its branch network as credit growth has been benign.
- The bank continued to invest in technology, especially in analytics, data warehousing, infrastructure and network security.
- Capital adequacy ratio stood at 20%, with a CET 1 ratio of 17.5%.

### Outlook & Valuation

HDFC Bank is expected to restore its C/D ratio back to normal levels in the medium term with an extensive and diversified distribution, a broad customer base and digital initiatives. This, coupled with a strong capital base, stable asset quality and granular deposits, positions the bank well to capture long-term growth opportunities. Additionally, the stock is currently trading at 1.9x FY27E BVPS, lower than its historical three-year average of 2.6x. Hence, we assign a BUY rating on the stock, based on 2.2x FY27E BVPS with a target price of ₹1,895.

## Recent Performance at a glance

## Exhibit 2 : Income Statement Analysis

(₹ mn)	3Q FY25	3Q FY24	% yoy / bps	2Q FY25	% qoq / bps	9M FY25	9M FY24	% yoy / bps
Interest Inc.	760	706	7.7	740	2.7	2,231	1,869	19.4
Interest Expenses	454	421	7.7	439	3.3	1,325	1,074	23.3
<b>Net Interest Income</b>	<b>307</b>	<b>285</b>	<b>7.7</b>	<b>301</b>	<b>1.8</b>	<b>906</b>	<b>795</b>	<b>14.0</b>
Other Income - Total	115	111	2.8	115	(0.3)	336	311	8.1
<b>Net Operating Revenue</b>	<b>421</b>	<b>396</b>	<b>6.3</b>	<b>416</b>	<b>1.2</b>	<b>1,242</b>	<b>1,105</b>	<b>12.4</b>
Employee Expenses	60	54	11.2	60	(0.6)	178	153	16.2
Other Opex	112	106	5.2	109	2.3	328	301	9.0
Total Opex	171	160	7.2	169	1.3	506	454	11.5
<b>Pre Provision Profits</b>	<b>250</b>	<b>236</b>	<b>5.7</b>	<b>247</b>	<b>1.2</b>	<b>736</b>	<b>651</b>	<b>13.0</b>
Exceptional Profit (Loss)	-	-	-	-	-	-	-	-
<b>PPP ex Except. Items</b>	<b>250</b>	<b>236</b>	<b>5.7</b>	<b>247</b>	<b>1.2</b>	<b>736</b>	<b>651</b>	<b>13.0</b>
Provisions & Contingencies - Total	32	42	(25.2)	27	16.8	85	100	(15.3)
<b>Profit Before Tax</b>	<b>218</b>	<b>194</b>	<b>12.4</b>	<b>220</b>	<b>(0.7)</b>	<b>651</b>	<b>551</b>	<b>18.1</b>
Tax	51	31	67.1	52	(1.4)	154	108	42.2
<b>Reported Profits</b>	<b>167</b>	<b>164</b>	<b>2.2</b>	<b>168</b>	<b>(0.5)</b>	<b>497</b>	<b>443</b>	<b>12.3</b>
Basic EPS	21.9	21.6	1.5	22.1	(0.8)	65.3	64.1	1.8

Source: Company, LKP Research

## Exhibit 3 : Balance Sheet Analysis

(₹ mn)	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	QoQ % / bps	YoY % / bps
Net Worth	4,050	4,223	4,376	4,556	4,602	4,796	4.2	13.6
RoE (%)	15.8	15.5	15.1	14.2	14.6	14.0	(66)	(155)
Tier 1 %	17.8	16.8	16.8	17.3	17.8	18.0	20	120
Total CAR %	19.5	18.4	18.8	19.3	19.8	20.0	20	158
<b>RWA - Total</b>	<b>21,742</b>	<b>23,865</b>	<b>24,680</b>	<b>24,556</b>	<b>2,481</b>	<b>25,185</b>	<b>915.0</b>	<b>5.5</b>
<b>Advances - Total</b>	<b>23,312</b>	<b>24,461</b>	<b>24,849</b>	<b>24,635</b>	<b>24,951</b>	<b>25,182</b>	<b>0.9</b>	<b>3.0</b>
Investments	7,234	6,749	7,024	7,088	7,240	8,119	12.1	20.3
<b>Total Assets</b>	<b>34,163</b>	<b>34,926</b>	<b>36,176</b>	<b>35,672</b>	<b>36,881</b>	<b>37,590</b>	<b>1.9</b>	<b>7.6</b>
RoA (%)	2.00	1.96	1.96	1.88	1.96	1.88	(8)	(8)
<b>Deposits</b>	<b>21,729</b>	<b>22,140</b>	<b>23,798</b>	<b>23,791</b>	<b>25,001</b>	<b>25,638</b>	<b>2.5</b>	<b>15.8</b>
CASA Deposits	8,177	8,357	9,087	8,637	8,835	8,727	(1.2)	4.4
CASA Ratio (%)	37.6	37.7	38.2	36.0	35.0	34.0	(100)	(370)
<b>Interest Bearing Liabilities - Total</b>	<b>28,896</b>	<b>29,517</b>	<b>30,419</b>	<b>29,784</b>	<b>30,856</b>	<b>31,340</b>	<b>1.6</b>	<b>6.2</b>

Source: Company, LKP Research

## Exhibit 4: Funding Profile Analysis

(₹ mn)	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	QoQ % / bps	YoY % / bps
Deposits	21,729	22,140	23,798	23,791	25,001	25,638	2.5	15.8
CASA Deposits	8,177	8,357	9,087	8,637	8,835	8,727	(1.2)	4.4
Saving Deposit	5,700	5,799	5,987	5,964	6,081	6,056	(0.4)	4.4
Current Deposit	2,477	2,558	3,100	2,673	2,754	2,671	(3.0)	4.4
Term Deposits	13,552	13,783	14,711	15,154	16,166	16,911	4.6	22.7
Borrowings	7,168	7,377	6,622	5,993	5,856	5,702	(2.6)	(22.7)
<b>Interest Bearing Liabilities - Total</b>	<b>28,896</b>	<b>29,517</b>	<b>30,419</b>	<b>29,784</b>	<b>30,856</b>	<b>31,340</b>	<b>1.6</b>	<b>6.2</b>

Source: Company, LKP Research

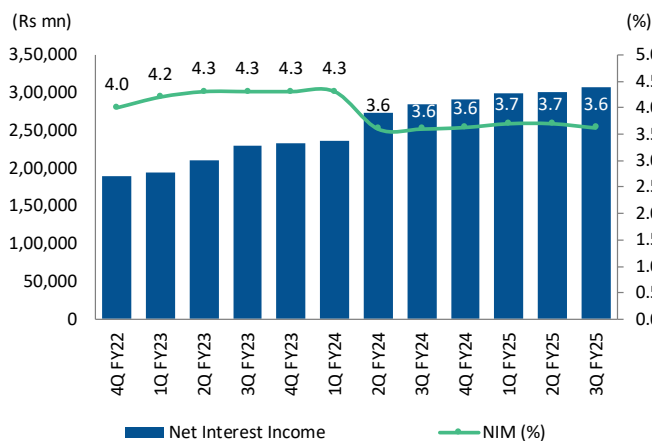
## Exhibit 5: Asset Quality Analysis

(₹ mn)	2Q FY24	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	QoQ % / bps	YoY % / bps
<b>Total Slippages</b>	<b>203</b>	<b>70</b>	<b>73</b>	<b>79</b>	<b>78</b>	<b>88</b>	<b>12.8</b>	<b>25.7</b>
<i>Slippages Ratio (%)</i>	1.27	0.44	0.46	0.32	0.31	0.35	4	(8)
<b>Gross NPA</b>	<b>316</b>	<b>310</b>	<b>312</b>	<b>330</b>	<b>343</b>	<b>360</b>	<b>5.2</b>	<b>16.1</b>
<i>Gross NPAs Ratio (%)</i>	1.34	1.26	1.24	1.33	1.36	1.42	6	16
<i>PCR - Calculated (%)</i>	74.4	75.3	74.0	71.2	69.9	67.8	(207)	(746)
<b>Net NPA</b>	<b>81</b>	<b>77</b>	<b>81</b>	<b>95</b>	<b>103</b>	<b>116</b>	<b>12.4</b>	<b>51.2</b>
<i>Net NPAs Ratio (%)</i>	0.35	0.31	0.33	0.39	0.41	0.46	5	15

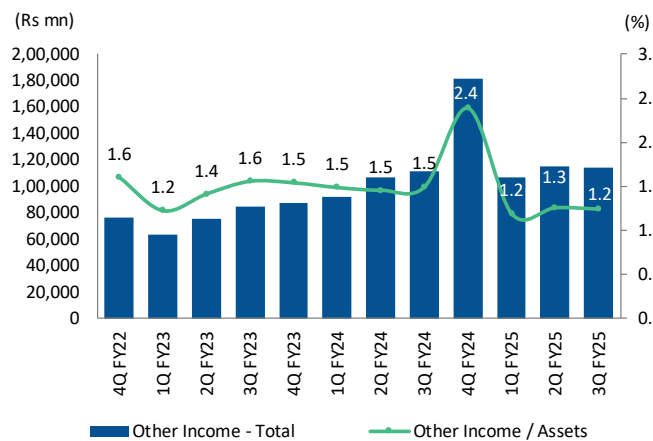
Source: Company, LKP Research

## Quarterly story in charts

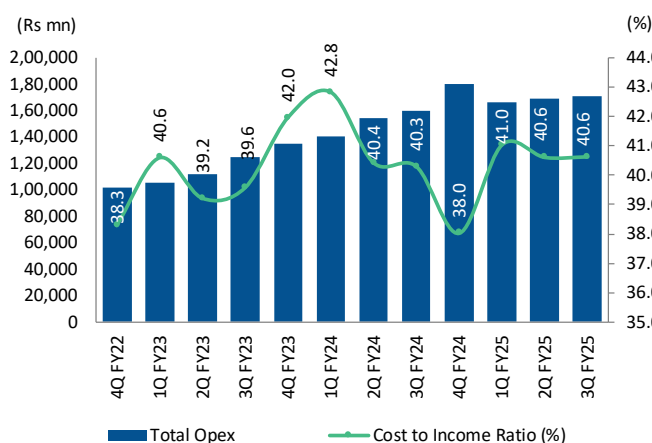
NII Trend



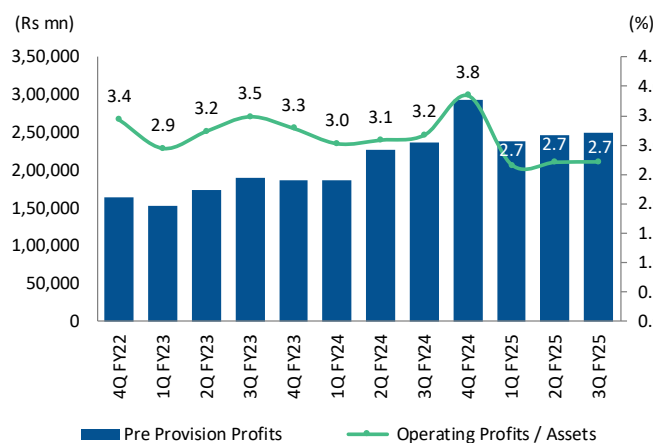
Other income trend



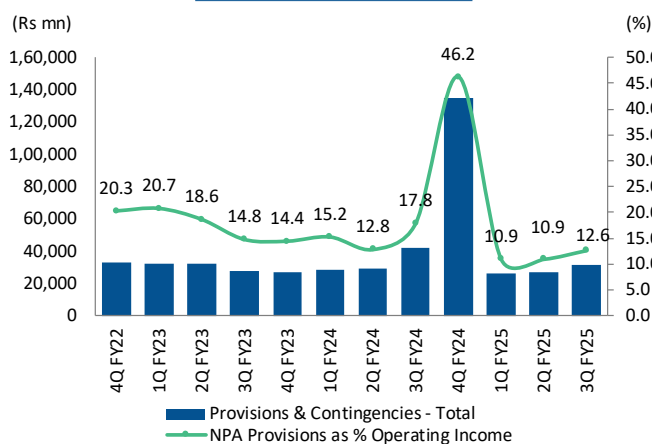
Total Opex Trend



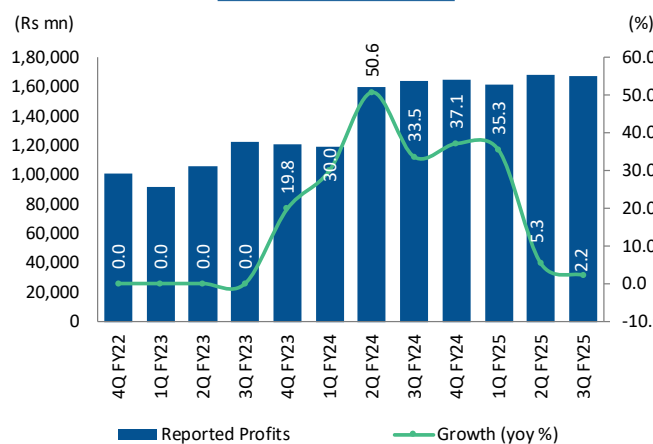
Pre Provision Profit trend



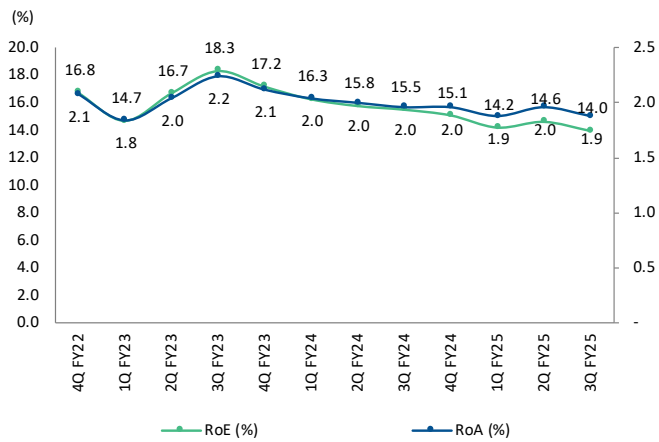
Provision Expenses trend



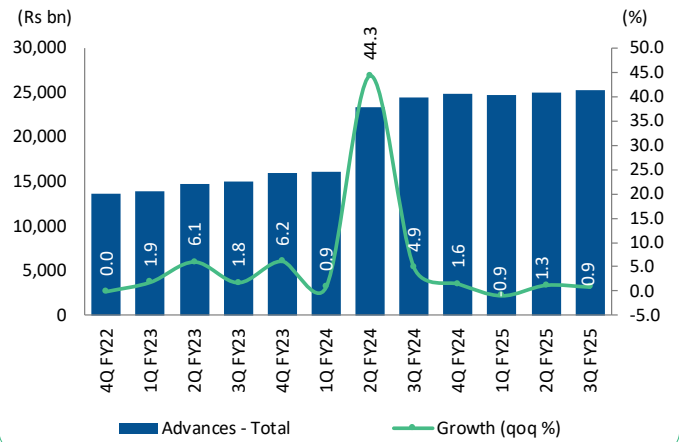
Reported Profit trend



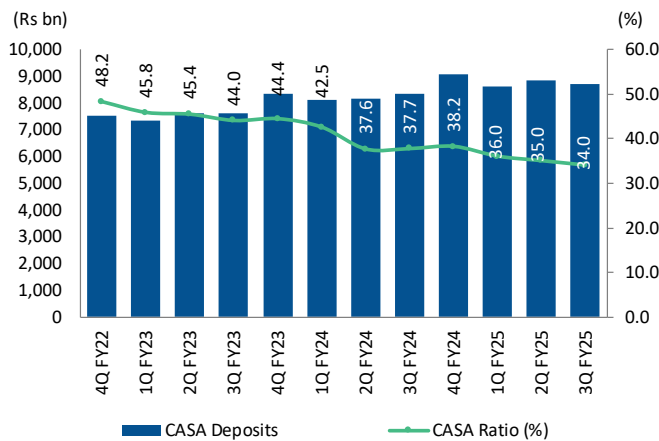
Return Ratio trend



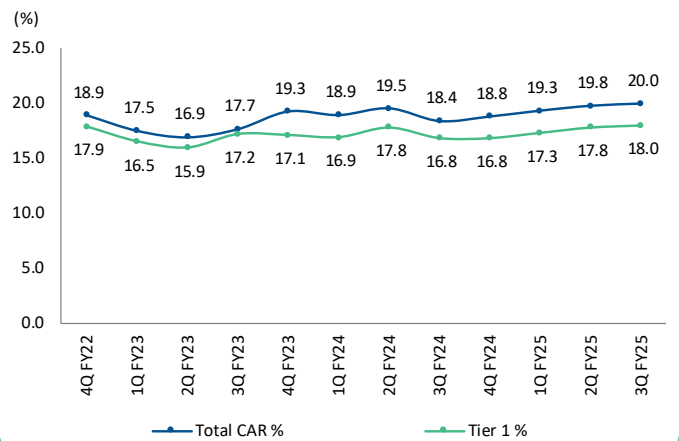
Loan Book trend



CASA Deposit trend



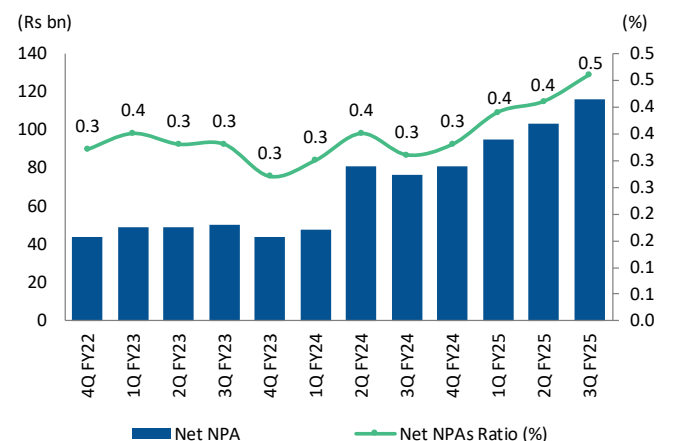
CRAR and Tier 1 trend



Gross NPA trend



Net NPA Trend



## Annual Projections

### Exhibit 6: Profit and Loss Statement

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Int. Income	1,616	2,583	3,089	3,399	3,780
Interest Expenses	747	1,498	1,777	1,960	2,164
<b>Net Interest Income</b>	<b>868</b>	<b>1,085</b>	<b>1,313</b>	<b>1,440</b>	<b>1,616</b>
<i>NIM (%)</i>	<i>4.05</i>	<i>3.80</i>	<i>3.68</i>	<i>3.64</i>	<i>3.62</i>
<b>Other Income - Total</b>	<b>312</b>	<b>492</b>	<b>435</b>	<b>508</b>	<b>611</b>
<b>Net Operating Revenue</b>	<b>1,181</b>	<b>1,578</b>	<b>1,747</b>	<b>1,947</b>	<b>2,227</b>
Employee Exp.	155	222	247	276	309
Other Opex	321	411	448	489	539
<b>Total Opex</b>	<b>477</b>	<b>634</b>	<b>695</b>	<b>765</b>	<b>848</b>
<i>C/I Ratio</i>	<i>40.36</i>	<i>40.18</i>	<i>39.80</i>	<i>39.29</i>	<i>38.07</i>
<b>Pre Provision Profits</b>	<b>704</b>	<b>944</b>	<b>1,052</b>	<b>1,182</b>	<b>1,379</b>
<i>PPP Growth (yoy %)</i>	<i>9.9</i>	<i>34.1</i>	<i>11.4</i>	<i>12.4</i>	<i>16.7</i>
<b>Provisions &amp; Contingencies - Total</b>	<b>119</b>	<b>235</b>	<b>144</b>	<b>154</b>	<b>185</b>
<i>Credit Cost (As % of Op. AUM)</i>	<i>0.66</i>	<i>1.11</i>	<i>0.45</i>	<i>0.45</i>	<i>0.50</i>
<b>Profit Before Tax</b>	<b>585</b>	<b>709</b>	<b>908</b>	<b>1,028</b>	<b>1,194</b>
Tax	144	101	223	253	294
<i>Effective Tax Rate</i>	<i>24.6</i>	<i>14.2</i>	<i>24.6</i>	<i>24.6</i>	<i>24.6</i>
<b>Reported Profits</b>	<b>441</b>	<b>608</b>	<b>685</b>	<b>775</b>	<b>901</b>
<i>PAT Growth (yoy %)</i>	<i>19.3</i>	<i>37.9</i>	<i>12.6</i>	<i>13.2</i>	<i>16.2</i>

### Exhibit 7: Balance Sheet

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	6	8	8	8	8
Reserves (ex Revel. Reserve)	2,796	4,368	5,053	5,828	6,729
<b>Net Worth - Ex Revaluation</b>	<b>2,802</b>	<b>4,376</b>	<b>5,061</b>	<b>5,836</b>	<b>6,736</b>
Deposits	18,834	23,798	27,636	31,422	36,107
<i>Growth (yoy %)</i>		<i>26.4%</i>	<i>16.1%</i>	<i>13.7%</i>	<i>14.9%</i>
Borrowings	2,068	6,622	5,225	5,030	4,877
<b>Interest Bearing Liabilities</b>	<b>20,902</b>	<b>30,419</b>	<b>32,861</b>	<b>36,452</b>	<b>40,984</b>
Other Lia. & Prov.	957	1,354	1,642	2,149	2,813
<b>Total Liabilities</b>	<b>24,661</b>	<b>36,176</b>	<b>39,600</b>	<b>44,473</b>	<b>50,569</b>
<b>Assets</b>					
Cash & Cash Equivalent	1,938	2,191	2,554	3,048	3,851
Investments	5,170	7,024	7,925	8,897	9,928
<i>Loan &amp; Advances</i>	<i>16,006</i>	<i>24,849</i>	<i>26,837</i>	<i>29,923</i>	<i>33,753</i>
<i>Growth (yoy %)</i>		<i>55.2</i>	<i>8.0</i>	<i>11.5</i>	<i>12.8</i>
Fixed Assets	80	114	142	158	178
Other Assets	1,467	1,998	2,142	2,448	2,859
<b>Total Assets</b>	<b>24,661</b>	<b>36,176</b>	<b>39,600</b>	<b>44,473</b>	<b>50,569</b>

## Exhibit 8: Per share data

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Face Value	1	1	1	1	1
Adjusted Share O/S - For Calculation	5,580	7,597	7,597	7,597	7,597
Earnings Per Share	79.1	80.0	90.1	102.0	118.5
EPS (% YoY)	18.6	1.3	12.6	13.2	16.2
P/E (x)	21.1	20.8	18.5	16.3	14.0
Book Value	502.2	576.0	666.1	768.2	886.7
BVPS (% YoY)	16.0	14.7	15.6	15.3	15.4
P/BV (x)	3.3	2.9	2.5	2.2	1.9
Adj. BV	498.3	570.7	660.8	762.8	881.4
Adj. BV (% YoY)	16.2	14.5	15.8	15.4	15.5
P/ABV (x)	3.3	2.9	2.5	2.2	1.9



## Exhibit 9: Detail RoA Tree Analysis (%)

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<b><u>Yields / Margins</u></b>					
Yield on Advance	8.6	10.1	9.6	9.6	9.5
Yield on Funds	7.5	9.0	8.7	8.6	8.5
Cost of Funds (CoF)	3.9	5.8	5.6	5.7	5.6
Interest Spread	3.6	3.2	3.0	2.9	2.9
NIM's	4.1	3.8	3.7	3.6	3.6
Interest Income / Assets	7.1	8.5	8.2	8.1	8.0
Interest Exp. / Assets	3.3	4.9	4.7	4.7	4.6
NII / Assets	3.8	3.6	3.5	3.4	3.4
Fee Income / Assets	0.9	1.1	0.8	0.9	0.9
Other Non Core Income / Assets	0.1	0.1	0.1	0.1	0.1
Other Income / Assets	1.4	1.6	1.1	1.2	1.3
Net Operating Income / Assets	5.2	5.2	4.6	4.6	4.7
<b><u>Operating Ratios</u></b>					
NII to Net Operative Income	73.6	68.8	75.1	73.9	72.6
Other Income to Net Operative Income	26.4	31.2	24.9	26.1	27.4
Empl. Cost/Oper. Exps.	32.6	35.1	35.6	36.0	36.5
Other Op. Exps./Oper. Exps.	67.4	64.9	64.4	64.0	63.5
C/I Ratio	40.4	40.2	39.8	39.3	38.1
Provisions as % PPP	10.1	14.9	8.2	7.9	8.3
Credit Cost (As % of Op. AUM)	0.7	1.1	0.5	0.5	0.5
Effective Tax Rate	24.6	14.2	24.6	24.6	24.6
Employee Exp. / Assets	0.7	0.7	0.7	0.7	0.7
Other Opex/ Assets	1.4	1.4	1.2	1.2	1.1
Total Opex / Assets	2.1	2.1	1.8	1.8	1.8
Operating Profits / Assets	3.1	3.1	2.8	2.8	2.9
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.1	3.1	2.8	2.8	2.9
Provisions / Assets	0.5	0.8	0.4	0.4	0.4
Profit Before Tax / Assets	2.6	2.3	2.4	2.4	2.5
Tax Expenses / Assets	0.6	0.3	0.6	0.6	0.6
RoA	1.9	2.0	1.8	1.8	1.9
Leverage (x)	8.8	8.3	7.8	7.6	7.5
RoE	17.0	16.9	14.5	14.2	14.3
Adj. RoA	1.9	2.0	1.8	1.8	1.9
Adj. RoE	17.0	16.9	14.5	14.2	14.3

## Exhibit 10: Balance Sheet Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Credit / Deposit Ratio	85.0	104.4	97.1	95.2	93.5
Incremental C/D Ratio	71.5	178.1	51.8	81.5	81.8
Investment Deposit Ratio	27.5	29.5	28.7	28.3	27.5
Dom. SLR Investment / Deposits	22.2	23.9	22.5	21.4	20.1
CASA Ratio	40.1	35.4	35.0	35.0	35.0

## Exhibit 11: Credit Quality

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
<i>Slippage Ratio</i>	1.8	2.5	1.3	1.2	1.2
<b>Gross NPA (Cl Bal)</b>	<b>180</b>	<b>312</b>	<b>315</b>	<b>366</b>	<b>426</b>
<i>Gross NPAs Ratio (%)</i>	1.1	1.2	1.3	1.2	1.1
<i>PCR (%)</i>	75.8	74.0	71.1	73.2	74.6
<b>Net NPA (Cl. Bal.)</b>	<b>44</b>	<b>81</b>	<b>91</b>	<b>98</b>	<b>108</b>
<i>Net NPAs Ratio (%)</i>	0.3	0.3	0.3	0.3	0.3
<b>Total Impaired Loans</b>	<b>1,80,190</b>	<b>3,11,733</b>	<b>3,15,055</b>	<b>3,66,432</b>	<b>4,26,149</b>
<i>Impaired Loan as % of Loan / AUM</i>	1.1	1.2	1.1	1.1	1.2
<b>Total Risk Reserves</b>	<b>1,36,506</b>	<b>2,30,816</b>	<b>2,23,900</b>	<b>2,68,218</b>	<b>3,17,871</b>
<i>Total Risk As % of Loan Book</i>	0.8	0.9	0.8	0.8	0.9

## Exhibit 12: Key Assumptions &amp; Forecasts

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Loan & Advances	16,006	24,849	26,837	29,923	33,753
Growth (yoy %)		55.2	8.0	11.5	12.8
Interest Bearing Liabilities	20,902	30,419	32,861	36,452	40,984
Growth (yoy %)		45.5	8.0	10.9	12.4
Yield on Funds	7.5	9.0	8.7	8.6	8.5
Cost of Funds (CoF)	3.9	5.8	5.6	5.7	5.6
Interest Spread	3.6	3.2	3.0	2.9	2.9
NIM's	4.1	3.8	3.7	3.6	3.6
Other Income Growth	5.8	57.7	(11.8)	16.8	20.4
C/I Ratio	40.4	40.2	39.8	39.3	38.1
Effective Tax Rate	24.6	14.2	24.6	24.6	24.6
<b>Return Ratios</b>					
Adj. RoA	1.9	2.0	1.8	1.8	1.9
Adj. RoE	17.0	16.9	14.5	14.2	14.3
<b>Asset Quality Metrics</b>					
Credit Cost (As % of Op. AUM)	0.7	1.1	0.5	0.5	0.5
Gross NPAs Ratio (%)	1.1	1.2	1.3	1.2	1.1
Net NPAs Ratio (%)	0.3	0.3	0.3	0.3	0.3

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