

Slower growth, but nearly stable margins, retail asset quality

BFSI - Banks ▶ Result Update ▶ January 23, 2025

TARGET PRICE (Rs): 2,100

HDFC Bank reported a slight miss (of 2%) on PAT, which came in at Rs167bn/1.8% RoA, primarily due to slower credit growth and higher provisions. Deposit growth remains healthy at 16% YoY/2.5% QoQ (up by Rs0.6trn QoQ), but credit growth fell to a new low of 3% YoY as the bank focused on LDR management (down by 160bps QoQ to 98%). However, the bank managed to nearly maintain its NIM at 3.6% (down by 3bps QoQ) owing to better investment yields and other interest income. Though retail asset quality held up well, with GNPA ratio ex-agri flat QoQ at 1.2%, overall GNPA ratio inched up to 1.42%, due to seasonal stress in the KCC book. We expect the bank to remain focused on LDR moderation via credit portfolio sell-off and deposit acceleration, which may keep margins in check. The bank is in the process of listing NBFC – HDB Financial Services, but near term asset-quality stress could weigh on valuation; retain BUY on HDFC Bank with unchanged TP of Rs2,100, valuing the standalone bank at 2.4x Dec-26E ABV and subs at Rs275/share.

HDFC Bank: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	441,087	608,123	668,218	751,816	878,637
Loan growth (%)	16.9	55.2	2.9	9.0	14.1
NII growth (%)	20.6	25.0	12.0	8.9	15.8
NIM (%)	4.1	3.4	3.5	3.5	3.6
PPOP growth (%)	9.9	34.1	7.3	12.3	18.2
Adj. EPS (Rs)	79.1	80.0	87.6	98.5	115.1
Adj. EPS growth (%)	18.6	1.3	9.4	12.5	16.9
Adj. BV (INR)	497.8	553.6	618.4	691.6	778.0
Adj. BVPS growth (%)	16.2	11.2	11.7	11.8	12.5
RoA (%)	1.9	1.8	1.8	1.8	1.9
RoE (%)	17.0	14.2	14.3	14.4	15.1
P/E (x)	19.0	17.4	15.9	14.1	12.1
P/ABV (x)	3.0	2.5	2.2	2.0	1.8

Source: Company, Emkay Research

Slows down growth to manage LDR, PSL requirement

HDFCB reported sub-par credit growth at ~3% YoY/1% QoQ (AUM growth at 7.6% YoY/2.5% QoQ) as the bank continued to shed eHDFCL's low yielding corp. book as well as sell the portfolio. Retail credit growth too has moderated, to 10% YoY, amid rising macro-micro dislocation. However, deposits growth remains strong at ~16% YoY/2.5% QoQ (+Rs0.6trn QoQ), leading to further moderation of 160bps in LDR to 98%. The bank managed to largely uphold its margins though, at 3.62% (fall 3bps QoQ), due to better investment yields and other interest income. The bank guides for sub-system credit growth in FY25E, while planning to mimic credit growth in the system in FY26E and outpacing it in FY27E. On the other hand, the bank targets accelerating deposit growth which, coupled with lower credit growth, should help it achieve LDR of 85% in due course, which may cast pressure on margins, partly offset by improving portfolio mix.

Retail asset quality largely stable

The bank posted higher slippages QoQ at Rs88bn/1.4% of loans, mainly due to seasonal stress in the KCC portfolio, leading to slight increase in GNPA/ NNPA ratio by 6bps QoQ to 1.42%. However, GNPA ratio ex-Agri portfolio was largely flat QoQ at 1.2%, indicating relatively resilient asset-quality performance in its retail portfolio, as the bank has not grown its unsecured loan portfolio over the past few years. The bank's specific PCR has slipped to 68% (~71% on ex-agri NPAs), which remains a slight irritant, whereas it has partly consumed the contingent + floating provision buffer (now stands at 1% of loans; Rs34/sh). We believe that HDFC Bank will shore up specific PCR or build its contingent provision buffer as it realizes one-off gains from stake sale in HDB Financial Services.

We retain BUY with TP of Rs2,100

We slightly trim our earnings estimates by 1-3%, but expect the bank to deliver a healthy 1.8-1.9% RoA over FY25-27E. The bank plans to launch the IPO of NBFC subsidiary HDB Financial Services, to the tune of Rs125bn (including OFS of Rs100bn), but near term asset-quality stress could weigh on valuations. We retain BUY with TP of Rs2,100, based on 2.4x Dec-26E standalone bank ABV and subs valuation (Rs275/sh).

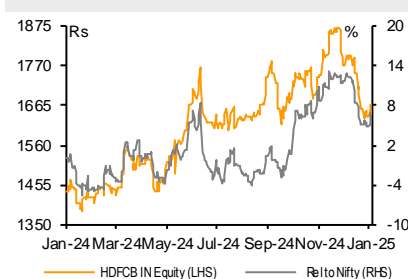
Target Price – 12M	Dec-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.0
CMP (22-Jan-25) (Rs)	1,666.1

Stock Data	Ticker
52-week High (Rs)	1,880
52-week Low (Rs)	1,363
Shares outstanding (mn)	7,648.3
Market-cap (Rs bn)	12,742
Market-cap (USD mn)	147,595
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	16
ADTV-3M (Rs mn)	28,209.3
ADTV-3M (USD mn)	326.7
Free float (%)	99.0
Nifty-50	23,155
INR/USD	86.3
Shareholding, Dec-24	
Promoters (%)	-
FPIs/MFs (%)	42.6/29.9

Price Performance

(%)	1M	3M	12M
Absolute	(6.0)	(2.8)	12.7
Rel. to Nifty	(4.2)	2.7	5.0

1-Year share price trend (Rs)



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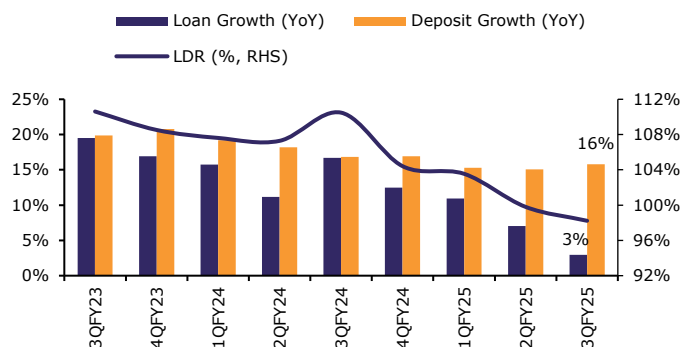
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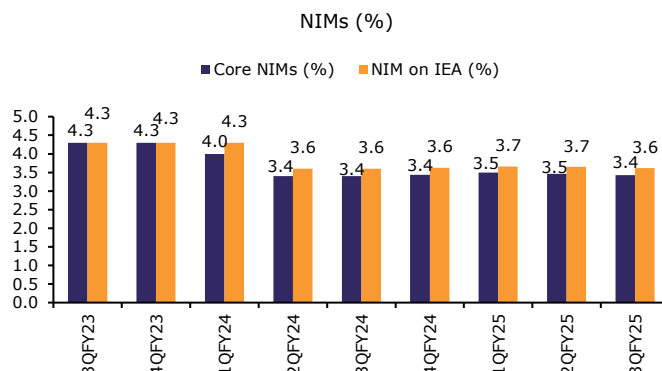
Story in Charts

Exhibit 1: Credit growth slows down further, due to shedding of the corporate book and retail portfolio sell-off, but deposit growth remains healthy



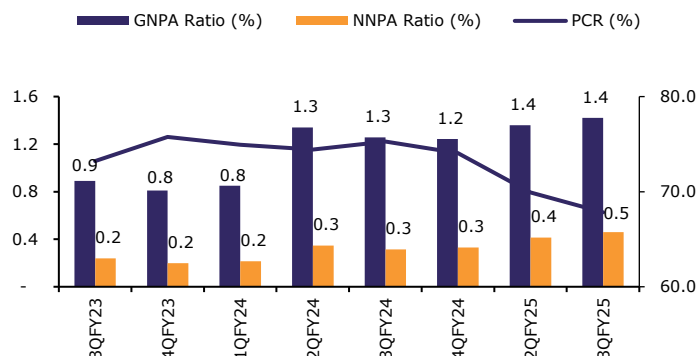
Source: Company, Emkay Research

Exhibit 2: NIM is stable, aided by better investment yields and other interest income



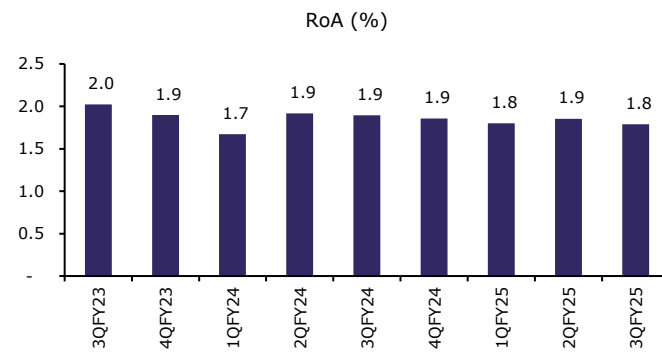
Source: Company, Emkay Research; Note: Figures from Q2FY24 represent NIMs on a merged basis and are therefore not comparable with the historical trend

Exhibit 3: Asset quality inched up, mainly led by seasonally higher KCC slippages, while PCR continues to dip QoQ



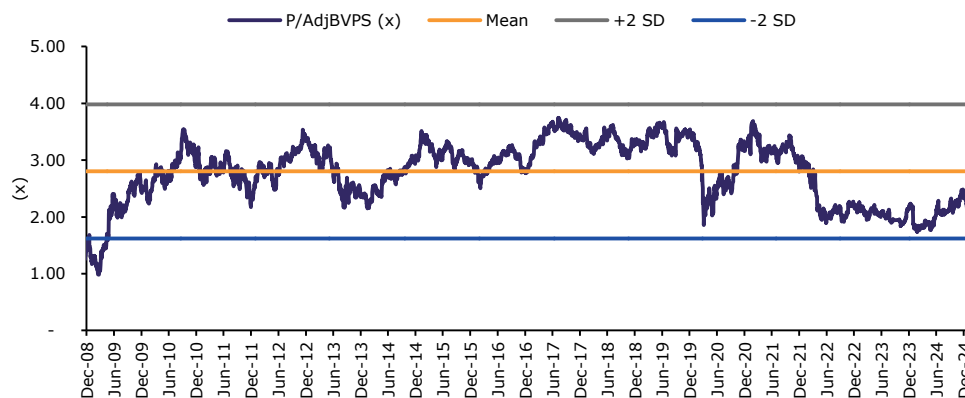
Source: Company, Emkay Research

Exhibit 4: RoA marginally dipped due to slower growth and higher provisions



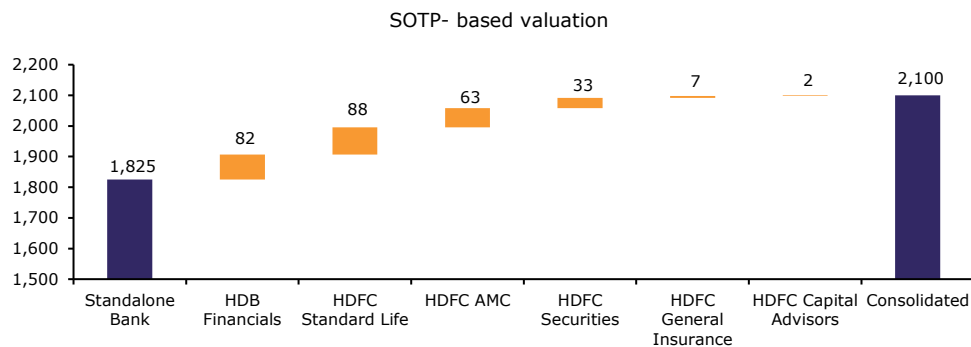
Source: Emkay Research

Exhibit 5: HDFCB trades at 2.2x 1Y-forward ABV



Source: Bloomberg, Emkay Research

Exhibit 6: SOTP-based valuation



Source: Emkay Research

Exhibit 7: Actuals vs Estimates (Q3FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	421,068	424,630	418,246	-1%	1%	Stable NIMs lead to in-line net income
PPOP	250,004	249,574	248,053	0%	1%	Lower other income and contained opex lead to a miss in PPOP
PAT	167,355	171,034	162,543	-2%	3%	PPOP miss and higher provisions lead to a miss in PAT

Source: Company, Emkay Research

Exhibit 8: Quarterly Summary

(Rs mn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	705,826	714,728	730,331	740,169	760,069	7.7	2.7	2,583,406	3,000,682	16.2
Interest Expenses	421,113	423,959	431,960	439,030	453,536	7.7	3.3	1,498,081	1,784,778	19.1
Net Interest Income	284,713	290,768	298,371	301,139	306,533	7.7	1.8	1,085,325	1,215,904	12.0
Global NIMs (reported)	3.60	3.63	3.66	3.65	3.62	2bps	-3bps	3.38	3.47	-8bps
Non-interest Income	111,370	181,663	106,681	114,827	114,536	2.8	-0.3	492,410	487,758	-0.9
Operating Expenses	159,611	179,688	166,206	168,909	171,064	7.2	1.3	633,860	690,781	9.0
Pre Provisioning Profit	236,473	292,742	238,846	247,057	250,004	5.7	1.2	943,874	1,012,881	7.3
Provision & Contingencies	42,166	135,116	26,021	27,005	31,539	-25.2	16.8	234,921	138,251	-41.2
PBT	194,307	157,626	212,826	220,053	218,466	12.4	-0.7	708,953	874,630	23.4
Income Tax Expense (Gain)	30,581	-7,493	51,078	51,843	51,111	67.1	-1.4	100,830	206,413	104.7
Net Profit/(Loss)	163,725	165,119	161,748	168,210	167,355	2.2	-0.5	608,123	668,218	9.9
Gross NPA (%)	1.26	1.24	1.33	1.36	1.42	16bps	6bps	1.24	1.40	-15bps
Net NPA (%)	0.31	0.33	0.39	0.41	0.46	15bps	5bps	0.33	0.41	-8bps
Deposits (Rs bn)	22,140	23,798	23,791	25,001	25,638	15.8	2.5	23,798	27,481	15.5
Net Advances (Rs bn)	24,461	24,849	24,635	24,951	25,182	3.0	0.9	24,849	25,576	2.9

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	1,716,186	1,703,662	-0.7%	1,937,662	1,907,823	-1.5%	2,271,924	2,227,257	-2.0%
PPOP	1,022,690	1,012,881	-1.0%	1,164,489	1,137,582	-2.3%	1,385,878	1,344,897	-3.0%
PAT	676,465	668,218	-1.2%	773,892	751,816	-2.9%	905,947	878,637	-3.0%
EPS (Rs)	88.6	87.6	-1.2%	101.4	98.5	-2.9%	118.7	115.1	-3.0%
BV (Rs)	647.5	646.5	-0.2%	725.0	721.0	-0.5%	815.7	808.1	-0.9%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

(%)	FY24	FY25E	FY26E	FY27E
Loan Growth	55.2	2.9	9.0	14.1
Deposit Growth	26.4	15.5	18.2	15.1
NIM	3.4	3.5	3.5	3.6
GNPA	1.2	1.4	1.4	1.4
Credit Cost	0.6	0.5	0.5	0.6

Source: Emkay Research

Exhibit 11: Key ratios and trend

(Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Loans*	15,068	16,006	16,157	23,312	24,461	24,849	24,635	24,951	25,182
YoY growth (%)	19.5	16.9	15.8	57.5	62.3	55.2	52.5	7.0	3.0
QoQ growth (%)	1.8	6.2	0.9	44.3	4.9	1.6	(0.9)	1.3	0.9
Composition (%)									
- Corporate	63.1	63.9	63.0	48.5	48.5	47.7	46.5	46.4	45.2
- Retail	34.1	33.5	34.4	51.5	49.8	50.8	52.0	52.7	53.3
- Overseas	2.8	2.6	2.6	-	1.7	1.5	1.5	1.5	1.5
Liability Profile and Margins									
Deposits*	17,332	18,834	19,131	21,729	22,140	23,798	23,791	25,001	25,638
YoY growth (%)	19.9	20.8	19.2	29.8	27.7	26.4	24.4	15.1	15.8
QoQ growth (%)	3.6	8.7	1.6	13.6	1.9	7.5	(0.0)	5.1	2.5
CA	2,277	2,735	2,524	2,477	2,558	3,100	2,673	2,754	2,671
SA	5,352	5,625	5,606	5,700	5,799	5,987	5,964	6,081	6,056
CASA (%)	44.0	44.4	42.5	37.6	37.7	38.2	36.3	35.3	34.0
CA (%)	13.1	14.5	13.2	11.4	11.6	13.0	11.2	11.0	10.4
SA (%)	30.9	29.9	29.3	26.2	26.2	25.2	25.1	24.3	23.6
NIM (%) (on IEA)	4.3	4.3	4.3	3.6	3.6	3.6	3.7	3.7	3.6
Branches (no. of)	7,183	7,821	7,860	7,945	8,091	8,738	8,851	9,092	9,143
Asset Quality and Capital Adequacy (%)									
GNPA	0.9	0.8	0.8	1.3	1.3	1.2	1.3	1.4	1.4
NNPA	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.5
PCR	73.0	75.6	74.7	74.2	75.0	73.4	70.7	69.6	67.6
CAR	19.4	19.3	18.9	19.5	18.4	18.8	19.3	19.8	20.0
Tier I	17.2	17.1	16.9	17.8	16.8	16.8	17.3	17.8	18.0
ROE Decomposition (%)									
NII	3.8	3.7	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Other Income (Ex Treasury)	1.4	1.4	1.2	1.2	1.1	1.2	1.2	1.2	1.2
Opex	2.1	2.1	2.0	1.8	1.8	2.0	1.9	1.9	1.8
PPOP	3.1	2.9	2.6	2.7	2.7	3.3	2.7	2.7	2.7
Provisioning Cost	0.5	0.4	0.4	0.3	0.5	1.5	0.3	0.3	0.3
PBT	2.7	2.5	2.2	2.4	2.2	1.8	2.4	2.4	2.3
ROA	2.0	1.9	1.7	1.9	1.9	1.9	1.8	1.9	1.8
Leverage (x)	9.1	9.1	9.7	8.2	8.2	8.1	7.8	7.8	7.7
ROE	18.3	17.2	16.3	15.8	15.5	15.0	14.1	14.5	13.9

Source: Company, Emkay Research; Note: *Represents merged numbers of HDFCB and eHDFCL from Q2FY24

HDFC Bank: Standalone Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	1,615,856	2,583,406	3,000,682	3,166,112	3,453,406
Interest Expense	747,433	1,498,081	1,784,778	1,841,386	1,919,253
Net interest income	868,422	1,085,325	1,215,904	1,324,727	1,534,153
NII growth (%)	20.6	25.0	12.0	8.9	15.8
Other income	312,148	492,410	487,758	583,097	693,104
Total Income	1,180,571	1,577,735	1,703,662	1,907,823	2,227,257
Operating expenses	476,521	633,860	690,781	770,242	882,360
PPOP	704,050	943,874	1,012,881	1,137,582	1,344,897
PPOP growth (%)	9.9	34.1	7.3	12.3	18.2
Core PPOP	715,361	828,613	968,507	1,082,114	1,283,882
Provisions & contingencies	119,197	234,921	138,251	140,478	170,249
PBT	584,853	708,953	874,630	997,104	1,174,648
Extraordinary items	0	0	0	0	0
Tax expense	143,766	100,830	206,413	245,287	296,011
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	441,087	608,123	668,218	751,816	878,637
PAT growth (%)	19.3	37.9	9.9	12.5	16.9
Adjusted PAT	441,087	608,123	668,218	751,816	878,637
Diluted EPS (Rs)	79.1	80.0	87.6	98.5	115.1
Diluted EPS growth (%)	18.6	1.3	9.4	12.5	16.9
DPS (Rs)	19.0	19.5	21.0	24.0	28.0
Dividend payout (%)	24.0	24.4	24.0	24.4	24.3
Effective tax rate (%)	24.6	14.2	23.6	24.6	25.2
Net interest margins (%)	4.1	3.4	3.5	3.5	3.6
Cost-income ratio (%)	40.4	40.2	40.5	40.4	39.6
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	360,555.0	405,211.5	434,421.3
Net NPLs	43,684.2	80,917.3	104,561.0	117,511.3	125,982.2
GNPA ratio (%)	1.1	1.2	1.4	1.4	1.4
NNPA ratio (%)	0.3	0.3	0.4	0.4	0.4
Provision coverage (%)	75.8	74.0	71.0	71.0	71.0
Gross slippages	245,363.1	402,621.0	325,480.9	343,511.5	417,282.0
Gross slippage ratio (%)	1.5	1.6	1.3	1.2	1.3
LLP ratio (%)	0.8	0.6	0.5	0.5	0.6
NNPA to networth (%)	1.5	1.8	2.1	2.1	2.0
Capital adequacy					
Total CAR (%)	19.3	18.8	19.3	19.0	18.8
Tier-1 (%)	17.1	16.8	17.5	17.4	17.3
CET-1 (%)	16.4	16.3	17.1	17.7	17.9
RWA-to-Total Assets (%)	66.0	67.4	68.9	67.2	66.4
Miscellaneous					
Total income growth (%)	22.6	59.5	13.4	7.5	10.6
Opex growth (%)	27.3	33.0	9.0	11.5	14.6
Core PPOP growth (%)	15.8	15.8	16.9	11.7	18.6
PPOP margin (%)	36.5	30.7	29.0	30.3	32.4
PAT/PPOP (%)	62.7	64.4	66.0	66.1	65.3
LLP-to-Core PPOP (%)	16.7	28.4	14.3	13.0	13.3
Yield on advances (%)	8.6	8.9	9.5	9.3	9.0
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	4,925,438	5,494,115	6,159,089
Net worth	2,801,990	4,402,458	4,933,069	5,501,746	6,166,720
Deposits	18,833,946	23,797,863	27,481,198	32,480,091	37,370,987
Borrowings	2,317,656	6,962,326	5,638,020	4,313,713	3,320,484
Interest bearing liab.	21,151,602	30,760,189	33,119,218	36,793,804	40,691,471
Other liabilities & prov.	707,222	1,013,584	674,016	744,186	1,911,768
Total liabilities & equity	24,660,815	36,176,231	38,726,303	43,039,736	48,769,959
Net advances	16,005,859	24,848,615	25,575,820	27,868,977	31,790,173
Investments	5,170,014	7,024,150	8,307,474	9,650,038	10,667,678
Cash, other balances	1,937,651	2,191,474	2,351,464	2,575,566	2,848,403
Interest earning assets	23,113,524	34,064,239	36,234,758	40,094,581	45,306,253
Fixed assets	80,165	113,990	124,876	133,916	143,543
Other assets	1,467,125	1,998,002	2,366,669	2,811,239	3,320,163
Total assets	24,660,815	36,176,231	38,726,303	43,039,736	48,769,958
BVPS (Rs)	503.7	579.5	646.5	721.0	808.1
Adj. BVPS (INR)	497.8	553.6	618.4	691.6	778.0
Gross advances	16,142,365	25,079,431	25,831,814	28,156,677	32,098,612
Credit to deposit (%)	85.0	104.4	93.1	85.8	85.1
CASA ratio (%)	44.4	38.2	33.6	32.6	33.8
Cost of deposits (%)	3.6	4.5	5.0	5.0	4.8
Loans-to-Assets (%)	64.9	68.7	66.0	64.8	65.2
Net advances growth (%)	16.9	55.2	2.9	9.0	14.1
Deposit growth (%)	20.8	26.4	15.5	18.2	15.1
Book value growth (%)	16.0	15.0	11.6	11.5	12.1

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	19.0	17.4	15.9	14.1	12.1
P/B (x)	3.0	2.4	2.2	1.9	1.7
P/ABV (x)	3.0	2.5	2.2	2.0	1.8
P/PPOP (x)	11.9	11.2	10.5	9.3	7.9
Dividend yield (%)	1.1	1.3	1.3	1.4	1.7
DuPont-RoE split (%)					
NII/avg assets	3.8	3.2	3.2	3.2	3.3
Other income	1.4	1.4	1.3	1.4	1.5
Fee income	1.1	0.9	0.9	1.0	1.1
Opex	2.1	1.9	1.8	1.9	1.9
PPOP	3.1	2.8	2.7	2.8	2.9
Core PPOP	3.2	2.7	2.6	2.6	2.8
Provisions	0.5	0.7	0.4	0.3	0.4
Tax expense	0.6	0.3	0.6	0.6	0.6
RoA (%)	1.9	1.8	1.8	1.8	1.9
Leverage ratio (x)	8.7	8.0	8.0	7.8	7.9
RoE (%)	17.0	14.2	14.3	14.4	15.1
Quarterly data					
Rs mn, Y/E Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	284,713	290,768	298,371	301,139	306,533
NIM(%)	3.4	3.4	3.5	3.5	3.4
PPOP	236,473	292,742	238,846	247,057	250,004
PAT	163,725	165,119	161,748	168,210	167,355
EPS (Rs)	22.7	21.7	21.7	22.1	21.9

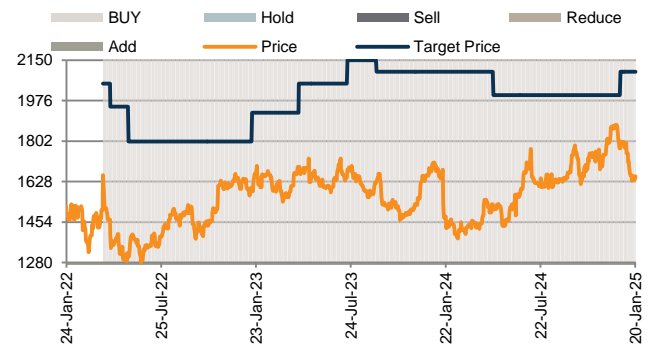
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-Dec-24	1,772	2,100	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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