

HDFC BANK LIMITED

Successfully navigating through multiple headwinds

LKP
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HDFC Bank delivered a resilient performance, with enhanced profitability supported by lower provisions and steady NII growth. While the bank's margin expanded on a stronger retail loan mix, it is expected to remain under pressure in the near term owing to repo rate cuts. However, by improving cost efficiency and maintaining sufficient provisioning, the bank's profitability is likely to remain stable. Moreover, given its stringent credit underwriting policies and seasoned unsecured portfolio, the bank witnessed an improvement in asset quality and is expected to remain healthy going forward. Furthermore, with an adequate capital base, innovative digital solutions and extensive branch network the bank is well-positioned to capture mid to long-term growth opportunities, given easing liquidity conditions. Hence, with an optimistic outlook, we maintain our **BUY** rating on the stock, based on 2.6x FY27E BVPS with a target price of ₹2,173.

Profitability improves on lower provisions

In Q4FY25, HDFC bank's net-interest income (NII) grew 10.3% YoY (+4.6% QoQ) to ₹321 bn, driven by steady growth in higher yield assets. The bank's net interest margin (NIM) expanded 10b bps YoY to 3.5%, as yields improved on growing retail book and cost of funds marginally reduced on lower borrowing mix (14.6% of working fund vs. 19% in Q4FY24). Further, pre-provision operating profit decreased 9.4% YoY to ₹265 bn (+6.1% QoQ), where non-interest income lowered (-33.8% YoY) as the bank had generated income on stake sale gain of HDFC Credila Financial Services Ltd (₹734 mn) in the previous year quarter. However, the bank's operational efficiency continues to improve with cost-to-income (C/I) at 39.8% (down 80 bps QoQ). Nevertheless, PAT grew 6.7% YoY to ₹176 bn, as provisions lowered (₹32 bn vs. ₹135 bn in Q4FY24) on improving asset quality.

Balance sheet growth remains strong with improving asset quality

During the quarter, advances grew (+5.4% YoY), led by healthy growth in retail loans (+9.0% YoY) and commercial and rural banking (CRB) loans (+12.8% YoY). However, the bank de-grew its corporate and other loans segment (-3.6% YoY), due to the competitive pricing and higher credit costs associated with the same. The bank continued to increase its deposits (+14.1% YoY), of which current account deposits grew 1.4% YoY and saving deposits grew 5.3% YoY; term deposits increased 20.3% YoY, in a high-interest rate scenario. As a result, the share of CASA deposits in total deposits stood at 35.0% (38.2% in Q4FY24). Additionally, asset quality improved, with gross non-performing assets (NPAs) and net NPAs at 1.33% and 0.43%, respectively (vs. 1.42% and 0.46% in Q3FY25), with improvement in corporate segment. This was further supported by reduced incremental slippages and strong recoveries.

Key Financials (₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	16,006	24,849	26,196	29,209	33,064
Net Interest Income	868	1,085	1,227	1,369	1,566
PPP ex Except. Items	704	944	1,001	1,162	1,370
Reported Profits	441	608	673	772	908
Earnings Per Share (₹)	79.1	80.0	88.0	100.8	118.6
P/E (x)	24.1	23.8	21.7	18.9	16.1
Adj. BV (₹)	498.3	570.7	642.9	717.3	835.9
P/ABV (x)	3.8	3.3	3.0	2.7	2.3
Gross NPAs Ratio (%)	1.1	1.2	1.3	1.2	1.1
Adj. RoA (%)	1.9	2.0	1.8	1.9	2.0
Adj. RoE (%)	17.0	16.9	14.4	14.7	15.1

BUY

Current Market Price (₹)	1,907
12 M Price Target (₹)	2,173
Potential upside (%)	14

Stock Data

Sector:	Banking
FV (₹) :	1
Market Cap Full (₹ bn) :	14,584
Market Cap Free Float (₹ bn) :	14,459
52-Week High / Low (₹) :	1,920 / 1,427
BSE Code / NSE Symbol :	500180 / HDFCBANK
Bloomberg :	HDFCB IN
Sensex / Nifty:	78,553 / 23,852

Shareholding Pattern

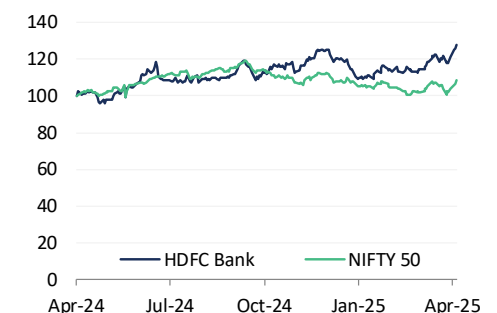
(%)	Mar-25	Dec-24	Sep-24	Jun-24
Promoter	0.00	0.00	0.00	0.00
FPIs	48.30	49.20	48.01	47.17
MFs	25.23	23.93	24.57	24.83
Insurance	7.99	7.99	8.27	8.21
Others	18.48	18.88	19.15	19.79

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	12M
HDFC Bank	11.5%	16.5%	14.0%	27.6%
Nifty 50	6.0%	2.8%	-3.6%	8.4%

* To date / current date : April 17, 2025

HDFC Bank vs Nifty 50

Key Concall Highlights

Business performance

- The expansion of the loan portfolio is expected to align with the previous guidance, with growth similar to the system in FY26. HDFC Bank continues to focus its growth in the retail lending space as the higher yields would provide some cushion in the policy rate cut scenario.
- The bank's emphasis is more on garnering retail deposits rather than wholesale deposits, as wholesale deposits are priced at higher rate and are volatile in nature. Thus, the bank accepts the deposits confined to its institutional relationships and according to the working capital funding requirement.
- In April'25, the bank has reduced its term deposit interest rates for longer tenures by 35-40bps. This will likely lead to CASA improvement in coming quarters.
- During the quarter, the bank has managed to reduce its CD ratio to 96.5%. Further, the management expects the CD ratio to witness a gradual reduction in FY26, unlike the steep reduction it had in FY25.

Operational performance

- Management highlighted that NIM could be impacted in the H1FY26 owing to policy rate cuts, as most of the loans get repriced immediately in the following month and deposits are repriced with a lag.
- Operating efficiency is expected to aid profitability, as rapid branch expansion in the previous years will likely reach the break-even point in FY26-27E.

Asset quality

- The bank continues to prioritize the expansion of its loan portfolio while avoiding risky asset exposure in an improving demand scenario, which could help sustain asset quality over time.
- Provision coverage ratio (PCR) at ~68%, however, the bank holds healthy provisions (floating + contingent) of ₹259b or 0.9% of loans.

Outlook & Valuation

HDFC Bank showcased consistent overall performance marked by profit growth despite merger complexities and margin pressures. Going forward, with an improving system liquidity, the bank backed by its strong capital base, extensive network and enhanced technology is expected to deliver loan growth of 12.3% CAGR for FY25-27E. Further, NIM is expected to remain range-bound in the medium term led by favourable asset mix and reduced funding costs. Thus, with an efficient operating leverage and sufficient provisioning due to top-tier asset quality, we expect the bank to deliver RoA of 2.0% by FY27E. Additionally, the stock is currently trading at 2.3x FY27E BVPS, lower than its historical three-year average of 2.6x. Hence, we reiterate our **BUY** rating on the stock, based on 2.6x FY27E BVPS with a target price of ₹2,173.

Recent Performance at a glance

Income Statement Analysis

(₹ bn)	4Q FY25	4Q FY24	% yoy / bps	3Q FY25	% qoq / bps	FY25	FY24	% yoy / bps
Interest Inc.	775	715	8.4	760	1.9	3,005	2,583	16.3
Interest Expenses	454	424	7.1	454	0.1	1,778	1,498	18.7
Net Interest Income	321	291	10.3	307	4.6	1,227	1,085	13.0
Other Income - Total	120	182	(33.8)	115	5.0	456	492	(7.3)
Net Operating Revenue	441	472	(6.7)	421	4.7	1,683	1,578	6.7
Employee Expenses	61	69	(11.8)	60	2.8	239	222	7.5
Other Opex	114	110	3.7	112	2.6	443	411	7.6
Total Opex	176	180	(2.3)	171	2.6	682	634	7.6
Pre Provision Profits	265	293	(9.4)	250	6.1	1,001	944	6.1
Exceptional Profit (Loss)	-	-	-	-	-	-	-	-
PPP ex Except. Items	265	293	(9.4)	250	6.1	1,001	944	6.1
Provisions & Contingencies - Total	32	135	(76.4)	32	1.2	116	235	(50.4)
Profit Before Tax	233	158	48.1	218	6.9	885	709	24.8
Tax	57	-7	(864.4)	51	12.1	211	101	109.6
Reported Profits	176	165	6.7	167	5.3	673	608	10.7
Basic EPS	23.0	21.7	5.9	21.9	5.2	88.3	85.9	2.8

Source: Company, LKP Research

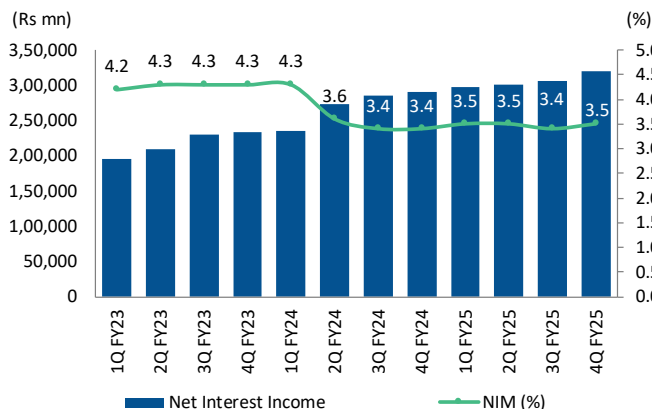
Balance Sheet Analysis

(₹ bn)	3Q FY24	4Q FY24	1Q FY25	2Q FY25	3Q FY25	4Q FY25	QoQ % / bps	YoY % / bps
Net Worth	4,223	4,376	4,556	4,602	4,796	4,976	3.8	13.7
RoE (%)	15.5	15.1	14.2	14.6	14.0	14.2	20	(93)
Tier 1 %	16.8	16.8	17.3	17.8	16.8	17.7	90	90
Total CAR %	18.4	18.8	19.3	19.8	20.0	19.6	(42)	75
RWA - Total	23,865	24,680	24,556	2,481	23,865	26,600	11.5	7.8
Advances - Total	24,461	24,849	24,635	24,951	25,182	26,196	4.0	5.4
Investments	6,749	7,024	7,088	7,240	8,119	8,364	3.0	19.1
Total Assets	34,926	36,176	35,672	36,881	37,590	39,102	4.0	8.1
RoA (%)	1.96	1.96	1.88	1.96	1.88	1.92	4	(4)
Deposits	22,140	23,798	23,791	25,001	25,638	27,147	5.9	14.1
CASA Deposits	8,357	9,087	8,637	8,835	8,727	9,446	8.2	4.0
CASA Ratio (%)	37.7	38.2	36.0	35.0	34.0	35.0	100	(320)
Interest Bearing Liabilities - Total	29,517	30,419	29,784	30,856	31,340	32,626	4.1	7.3

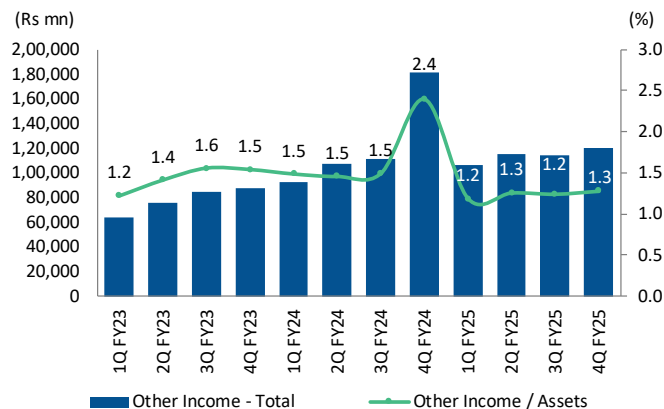
Source: Company, LKP Research

Quarterly story in charts

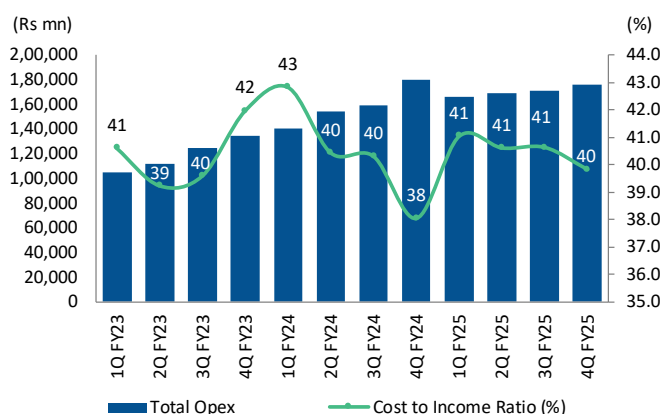
NII Trend



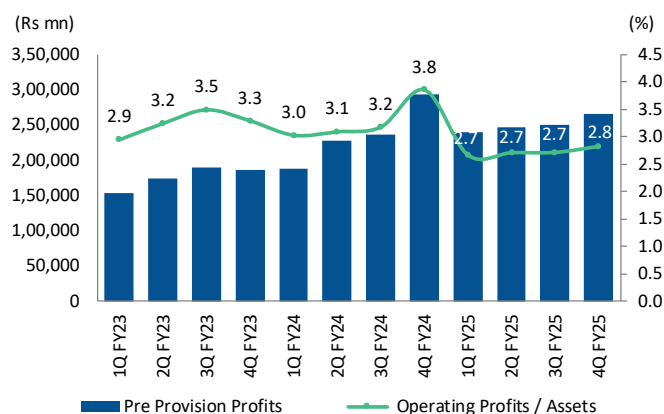
Other income trend



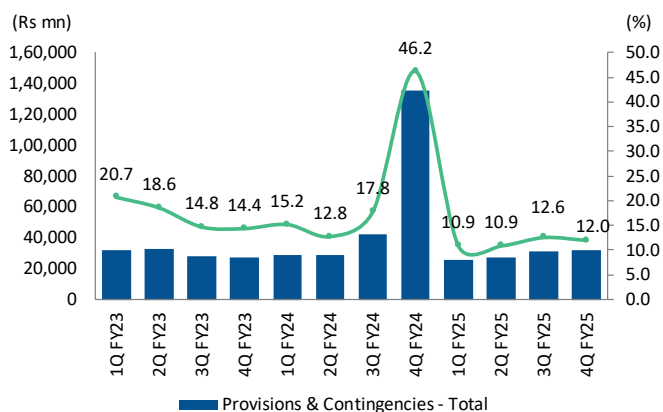
Total Opex Trend



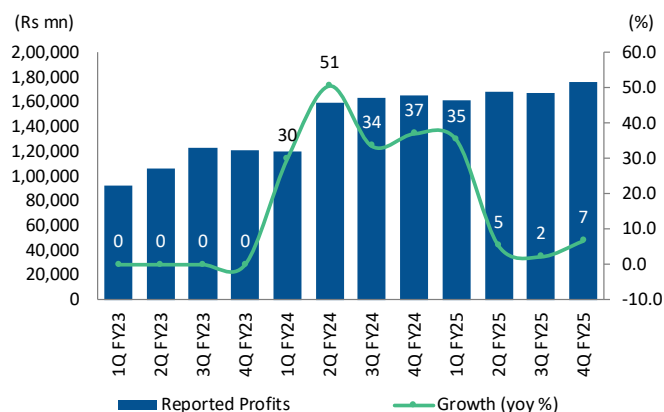
Pre Provision Profit trend



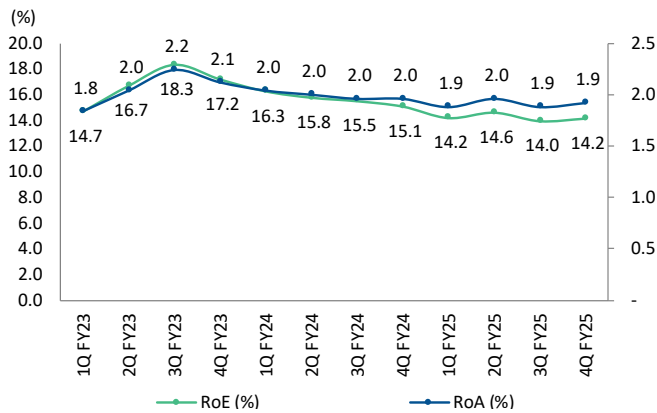
Provision Expenses trend



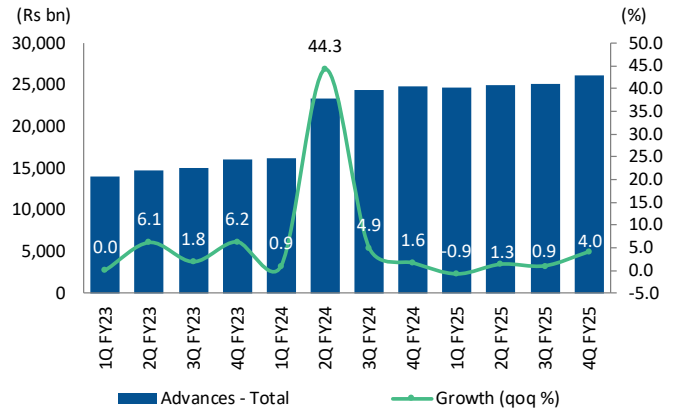
Reported Profit trend



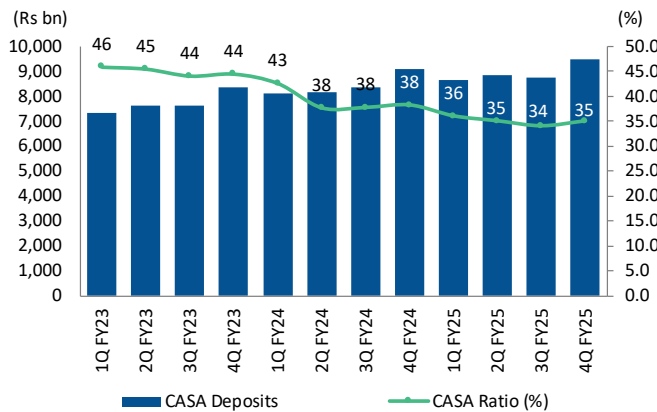
Return Ratio trend



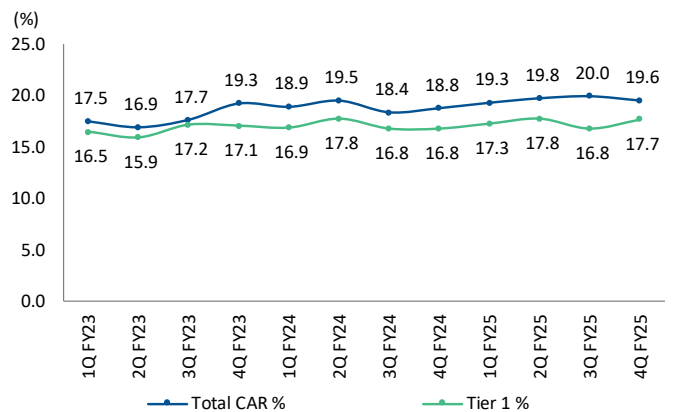
Loan Book trend



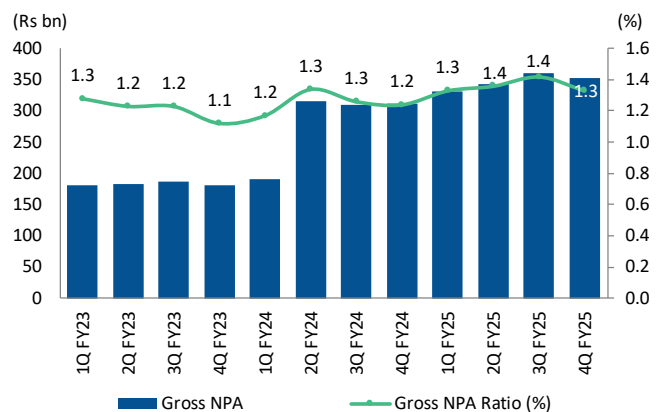
CASA Deposit trend



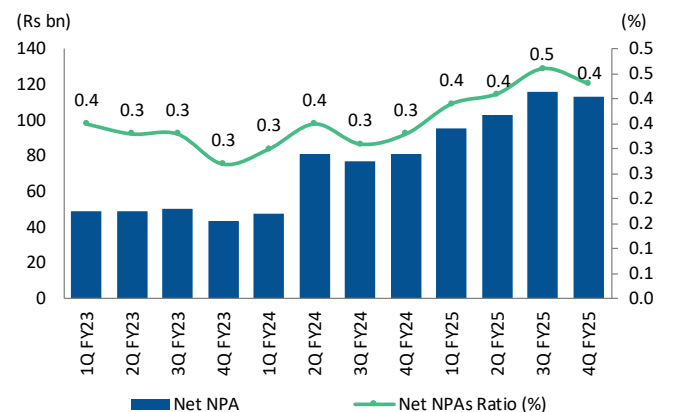
CRAR and Tier 1 trend



Gross NPA trend



Net NPA Trend



Annual Projections

Profit and Loss Statement

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Int. Income	1,616	2,583	3,005	3,296	3,689
Interest Expenses	747	1,498	1,778	1,927	2,123
Net Interest Income	868	1,085	1,227	1,369	1,566
<i>NIM (%)</i>	<i>4.05</i>	<i>3.80</i>	<i>3.45</i>	<i>3.50</i>	<i>3.58</i>
Other Income - Total	312	492	456	532	632
Net Operating Revenue	1,181	1,578	1,683	1,901	2,198
Employee Exp.	155	222	239	259	288
Other Opex	321	411	443	480	540
Total Opex	477	634	682	739	828
<i>C/I Ratio</i>	<i>40.36</i>	<i>40.18</i>	<i>40.51</i>	<i>38.87</i>	<i>37.66</i>
Pre Provision Profits	704	944	1,001	1,162	1,370
<i>PPP Growth (yoy %)</i>	<i>9.9</i>	<i>34.1</i>	<i>6.1</i>	<i>16.0</i>	<i>17.9</i>
Provisions & Contingencies - Total	119	235	116	148	178
<i>Credit Cost (As % of Op. AUM)</i>	<i>0.66</i>	<i>1.11</i>	<i>0.35</i>	<i>0.45</i>	<i>0.50</i>
Profit Before Tax	585	709	885	1,014	1,192
Tax	144	101	211	242	285
<i>Effective Tax Rate</i>	<i>24.6</i>	<i>14.2</i>	<i>23.9</i>	<i>23.9</i>	<i>23.9</i>
Reported Profits	441	608	673	772	908
<i>PAT Growth (yoy %)</i>	<i>19.3</i>	<i>37.9</i>	<i>10.7</i>	<i>14.6</i>	<i>17.6</i>

Balance Sheet

(₹ bn)	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	6	8	8	8	8
Reserves (ex Revel. Reserve)	2,796	4,368	4,969	5,538	6,445
Net Worth - Ex Revaluation	2,802	4,376	4,976	5,545	6,453
Deposits	18,834	23,798	27,147	31,338	35,878
<i>Growth (yoy %)</i>		<i>26.4%</i>	<i>14.1%</i>	<i>15.4%</i>	<i>14.5%</i>
Borrowings	2,068	6,622	5,479	4,933	4,708
<i>Other Lia. & Prov.</i>	<i>957</i>	<i>1,354</i>	<i>1,461</i>	<i>1,768</i>	<i>2,122</i>
Total Liabilities	24,661	36,176	39,102	43,622	49,199
Assets					
Cash & Cash Equivalent	1,938	2,191	2,396	2,712	3,077
Investments	5,170	7,024	8,364	9,273	10,189
<i>Loan & Advances</i>	<i>16,006</i>	<i>24,849</i>	<i>26,196</i>	<i>29,209</i>	<i>33,064</i>
<i>Growth (yoy %)</i>		<i>55.2</i>	<i>5.4</i>	<i>11.5</i>	<i>13.2</i>
Fixed Assets	80	114	137	156	174
Other Assets	1,467	1,998	2,010	2,273	2,694
Total Assets	24,661	36,176	39,102	43,622	49,199

Detail RoA Tree Analysis (%)

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
<u>Yields / Margins</u>					
Yield on Advance	8.6	10.1	9.3	9.4	9.4
Yield on Funds	7.5	9.0	8.5	8.4	8.4
Cost of Funds (CoF)	3.9	5.8	5.6	5.6	5.5
Interest Spread	3.6	3.2	2.8	2.8	2.9
NIM's	4.1	3.8	3.5	3.5	3.6
Interest Income / Assets	7.1	8.5	8.0	8.0	7.9
Interest Exp. / Assets	3.3	4.9	4.7	4.7	4.6
NII / Assets	3.8	3.6	3.3	3.3	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	1.2	1.3	1.4
Net Operating Income / Assets	5.2	5.2	4.5	4.6	4.7
<u>Operating Ratios</u>					
NII to Net Operative Income	73.6	68.8	72.9	72.0	71.2
Other Income to Net Operative Income	26.4	31.2	27.1	28.0	28.8
Empl. Cost/Oper. Exps.	32.6	35.1	35.1	35.0	34.8
Other Op. Exps./Oper. Exps.	67.4	64.9	64.9	65.0	65.2
C/I Ratio	40.4	40.2	40.5	38.9	37.7
Provisions as % PPP	10.1	14.9	6.9	7.8	8.1
Credit Cost (As % of Op. AUM)	0.7	1.1	0.4	0.5	0.5
Effective Tax Rate	24.6	14.2	23.9	23.9	23.9
Employee Exp. / Assets	0.7	0.7	0.6	0.6	0.6
Other Opex/ Assets	1.4	1.4	1.2	1.2	1.2
Total Opex / Assets	2.1	2.1	1.8	1.8	1.8
Operating Profits / Assets	3.1	3.1	2.7	2.8	3.0
Exceptional Items / Assets	-	-	-	-	-
Op Profit ex Except Items / Assets	3.1	3.1	2.7	2.8	3.0
Provisions / Assets	0.5	0.8	0.3	0.4	0.4
Profit Before Tax / Assets	2.6	2.3	2.4	2.5	2.6
Tax Expenses / Assets	0.6	0.3	0.6	0.6	0.6
RoA	1.9	2.0	1.8	1.9	2.0
Leverage (x)	8.8	8.3	7.9	7.9	7.6
RoE	17.0	16.9	14.4	14.7	15.1
Adj. RoA	1.9	2.0	1.8	1.9	2.0
Adj. RoE	17.0	16.9	14.4	14.7	15.1

Per share data

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Face Value	1	1	1	1	1
Adjusted Share O/S - For Calculation	5,580	7,597	7,652	7,652	7,652
Earnings Per Share	79.1	80.0	88.0	100.8	118.6
EPS (% YoY)	18.6	1.3	9.9	14.6	17.6
P/E (x)	24.1	23.8	21.7	18.9	16.1
Book Value	502.2	576.0	650.3	724.6	843.3
BVPS (% YoY)	16.0	14.7	12.9	11.4	16.4
P/BV (x)	3.8	3.3	2.9	2.6	2.3
Adj. BV	498.3	570.7	642.9	717.3	835.9
Adj. BV (% YoY)	16.2	14.5	12.7	11.6	16.5
P/ABV (x)	3.8	3.3	3.0	2.7	2.3

Key Assumptions & Forecasts

Y/E Mar	FY23	FY24	FY25	FY26E	FY27E
Loan & Advances	16,006	24,849	26,196	29,209	33,064
Growth (yoy %)		55.2	5.4	11.5	13.2
Interest Bearing Liabilities	20,902	30,419	32,626	36,271	40,586
Growth (yoy %)		45.5	7.3	11.2	11.9
Yield on Funds	7.5	9.0	8.5	8.4	8.4
Cost of Funds (CoF)	3.9	5.8	5.6	5.6	5.5
Interest Spread	3.6	3.2	2.8	2.8	2.9
NIM's	4.1	3.8	3.5	3.5	3.6
Other Income Growth	5.8	57.7	(7.3)	16.6	18.8
C/I Ratio	40.4	40.2	40.5	38.9	37.7
Effective Tax Rate	24.6	14.2	23.9	23.9	23.9
Return Ratios					
Adj. RoA	1.9	2.0	1.8	1.9	2.0
Adj. RoE	17.0	16.9	14.4	14.7	15.1
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	0.7	1.1	0.4	0.5	0.5
Gross NPAs Ratio (%)	1.1	1.2	1.3	1.2	1.1
Net NPAs Ratio (%)	0.3	0.3	0.4	0.4	0.4

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