

**Eyeing earning improvement; Maintain Buy**

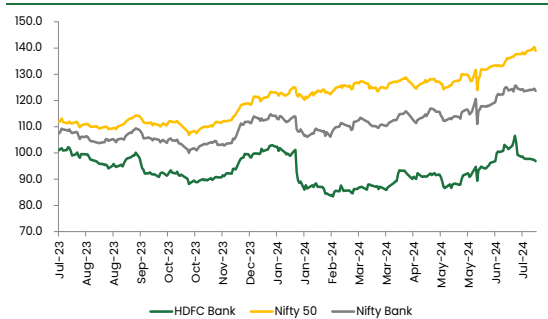
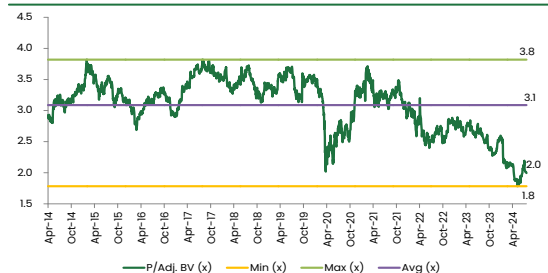
Q1FY25 Result Update | Sector: Bank | July 22, 2024

**BUY**

<b>CMP (Rs)</b>	<b>1,635</b>
<b>Target Price (Rs)</b>	<b>1,937</b>
<b>Potential Upside</b>	<b>18%</b>
<b>Sensex</b>	80,542
<b>Nifty</b>	24,504
<b>Key Stock data</b>	
<b>BSE Code</b>	500180
<b>NSE Code</b>	HDFCBANK
<b>Bloomberg</b>	HDFCB:IN
<b>Shares o/s, Cr (FV 1)</b>	759.7
<b>Market Cap (Rs Cr)</b>	12,41,715
<b>3M Avg Volume</b>	2,06,88,479
<b>52 week H/L</b>	1,794/1,363

**Shareholding Pattern**

(%)	Dec-23	Mar-24	Jun-24
Promoter	-	-	-
FII	52.3	47.8	47.2
DII	30.8	33.6	35.2
Public	16.9	18.6	17.6

**1 year relative price performance**

**1 year forward P/Adj. BV (x)**

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**Vinay Kalani**

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**Profitability remained flat:** HDFC Bank's net interest income reported marginal increase of 2.6% QoQ to Rs 29,837cr as margins remained flat. Pre-provision operating profit (PPOP) grew by 27.2% YoY to Rs 23,8854cr, however, PAT declined by 2.0% QoQ as other income de-grew by 41.3% QoQ amid lower treasury income.

**Advances growth remains muted:** Loan book during the quarter declined by 0.77% QoQ to Rs 24,869bn mainly due to run down in wholesale advances by 5.3% QoQ. Retail advances saw marginal increase by 1.63% QoQ to Rs 12,817bn as segments such as retail mortgages, personal loans and auto loan reported growth of 2%/(-) 1.7%/(-)4.1% QoQ. Advance growth in retail segment especially in personal loan has been deliberately slower, reflecting conscious made early within internal systems.

**CASA ratio falls further:** The bank's deposit growth was relatively stagnant, with a slight decline of 0.03% QoQ, bringing total deposits to ₹23,791 bn. Term deposits, however, showed robust growth, increasing by 3% QoQ. In contrast, savings account deposits and current account deposits experienced declines of 0.4% and 13.8% QoQ, respectively. This significant reduction in savings and current account deposits negatively impacted the bank's CASA ratio, which fell to 36.3%, representing a decline of 114 basis points on a QoQ basis.

**Margins remained flat with marginal improvement:** During the quarter, net interest margin improved marginally by 3bps QoQ to 3.47% as the yields on assets improved to 8.4% while cost of funds remained steady at 4.9%. The bank aims to increase the yields on assets to maintain appropriate loan mix which is sustainable in the long run. Going forward, the management expects cost of funds to decline marginally which shall aid the net interest margins.

**Asset quality continues to remain robust:** Asset quality for the bank continues to remain robust as both Gross NPA (GNPA) and Net NPA (NNPA) remain at one of lowest levels in banks history while on sequential basis there has uptick in both metrics. During the quarter GNPA increased by 9bps QoQ and NNPA increased by 6bps QoQ. GNPA/NNPA stood at 1.33%/0.39%. The bank maintains confident of asset quality and expects to maintain its asset quality of superior quality as compared to its peers.

**Valuation and outlook:** We remain positive on HDFC Bank as characterised by slight improvement in margins. The management expects margin to improve in the coming quarters as the deposits pace picks up and interest rates moderate. The bank continues to maintain healthy asset quality. Financially, we expect NII/PPOP/PAT to grow at a CAGR of 25%/30%/31% over FY24-26E. We continue to remain positive on HDFC Bank and maintain **Buy** rating with a target price of **Rs 1,937** valuing the bank at 2.4x of its FY26E Adj. BV.

**Financial Summary - standalone**

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Interest earned	1,61,586	2,58,341	3,07,058	3,75,279
Interest expended	74,743	1,49,808	1,74,164	2,05,796
Net interest income	86,842	1,08,532	1,32,894	1,69,484
Operating profit before provisions	70,405	94,387	1,14,378	1,54,538
Profit after tax	44,109	60,812	72,069	1,00,127
EPS (Rs.)	79.3	80.0	94.9	131.8
BVPS (Rs.)	502.0	580.0	674.4	806.2
Adj. BVPS (Rs.)	492.4	539.0	628.6	752.0
P/Adj. BV (x)	3.3	3.0	2.6	2.2
RoA (%)	2.1	2.0	1.7	2.1
RoE (%)	17.4	16.1	14.1	16.3

Source : RBL Research

**Concall highlights:** 1) The bank acknowledges this to be a period of transition post-merger. 2) The bank will grow at a slower pace compared to deposit growth. Over time, the focus has been on profitable growth rather than just growth. 3) The bank's primary focus is accelerating the core retail deposit franchise. Retail deposits are a kind of a segment for branch catchment. 4) The bank maintains disciplined pricing and wins customers through engagement and service delivery. 5) The growth in unsecured personal loans has been deliberately slower, reflecting a conscious decision made early within the internal system. This adjustment aligns with regulatory requirements. 6) Business mix will determine the trajectory of margins. NIM is expected to remain stable.

Net interest income increased by 2.6% QoQ

PAT remained flat with a marginal decrease of 2.0% QoQ

#### Quarterly performance - standalone

Particulars, Rs cr	Q1FY25E	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Interest earned	73,033	48,587	50.3	71,473	2.2
Other income	10,668	9,230	15.6	18,166	(41.3)
Interest expended	43,196	24,988	72.9	42,396	1.9
<b>Net interest income</b>	<b>29,837</b>	<b>23,599</b>	<b>26.4</b>	<b>29,077</b>	<b>2.6</b>
Employee cost	5,849	4,782	22.3	6,936	(15.7)
Other operating expenses	10,772	9,275	16.1	11,033	(2.4)
<b>Operating profit before provisions</b>	<b>23,885</b>	<b>18,772</b>	<b>27.2</b>	<b>29,274</b>	<b>(18.4)</b>
<b>Operating margin (%)</b>	<b>32.7</b>	<b>38.6</b>	<b>-593bps</b>	<b>41.0</b>	<b>-825bps</b>
Provisions and contingencies	2,602	2,860	(9.0)	13,512	(80.7)
Profit before tax	21,283	15,912	33.8	15,763	35.0
Tax	5,108	3,960	-	(749)	-
Tax rate (%)	24.0	24.9	-	(4.8)	-
<b>Profit after tax</b>	<b>16,175</b>	<b>11,952</b>	<b>35.3</b>	<b>16,512</b>	<b>(2.0)</b>
PAT margin (%)	22.1	24.6	-245bps	23.1	-96bps
EPS (Rs)	21.3	21.4	(0.6)	21.7	(2.1)

Source : RBL Research

#### Segments - standalone

Particulars, Rs cr	Q1FY25E	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue from operations					
Treasury	15,321	10,538	45.4	20,553	(25.5)
<b>Retail Banking</b>	<b>68,055</b>	<b>42,939</b>	<b>58.5</b>	<b>65,065</b>	<b>4.6</b>
Wholesale Banking	47,174	28,333	66.5	48,746	(3.2)
Other Banking	7,994	6,950	15.0	8,319	(3.9)
Profit before tax					
Treasury	1,706	1,355	25.9	9,128	(81.3)
<b>Retail Banking</b>	<b>5,821</b>	<b>3,569</b>	<b>63.1</b>	<b>426</b>	<b>1,265.3</b>
Wholesale Banking	10,776	8,848	21.8	3,751	187.3
Other Banking	3,557	2,758	29.0	2,826	25.9

Source : RBL Research

Advances/deposits remained flat on QoQ basis

NIMs improved marginally by 3bps QoQ

Asset quality remains healthy with GNPA ratio at 1.33%

#### Business parameters – standalone

Particulars	Q1FY25E	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Advances (Rs Bn)	24,869	16,300	52.6	25,062	(0.77)
Deposits (Rs Bn)	23,791	19,131	24.4	23,798	(0.03)
New branches (Abs)	113	39	189.7	647	(82.5)
Credit to deposits ratio (%)	104.5	85.2	1933bps	105.3	-78bps
RoA (%)	1.9	2.1	-21bps	1.9	1bps
RoE (%)	15.0	17.3	-230bps	14.8	20bps
<b>NIM (%)</b>	<b>3.5</b>	<b>4.1</b>	<b>-63bps</b>	<b>3.4</b>	<b>3bps</b>
Cost to income ratio (%)	41.0	42.8	-180bps	41.3	-30bps
<b>Yield on assets</b>	<b>8.4</b>	<b>8.1</b>	<b>30bps</b>	<b>8.4</b>	<b>0bps</b>
Cost of funds (incl. shareholders funds)	4.9	4.0	90bps	4.9	0bps

Source : RBL Research

#### Asset quality – standalone

Particulars, Rs cr	Q1FY25E	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Gross NPA	33,026	19,064	73.2	31,173	5.9
Net NPA	9,508	4,777	99.0	8,091	17.5
<b>Gross NPA (%)</b>	<b>1.3</b>	<b>1.2</b>	<b>16bps</b>	<b>1.2</b>	<b>9bps</b>
<b>Net NPA (%)</b>	<b>0.4</b>	<b>0.3</b>	<b>9bps</b>	<b>0.3</b>	<b>6bps</b>

Source : RBL Research

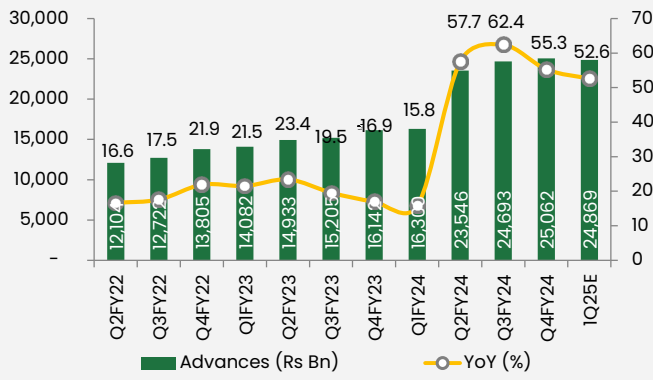
#### Loans and deposits mix

Particulars	Q1FY25E	Q1FY24	YoY (bps)	Q4FY24	QoQ (bps)
<b>Loan mix</b>					
Retail mix	56.0	47.0	900	54.0	200
Wholesale mix	44.0	53.0	-900	46.0	-200
<b>Deposits mix</b>					
SA mix	25.1	30.0	-493	26.2	-112
CA mix	11.2	14.0	-276	11.6	-32
CASA ratio (%)	36.3	44.0	-770	37.7	-144

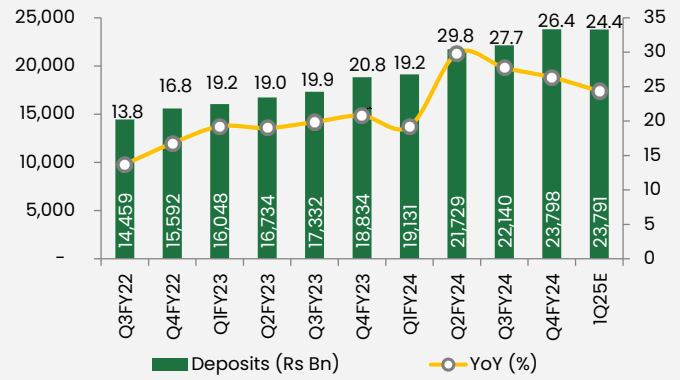
Source : RBL Research

Story in charts

Advances were almost on QoQ basis while it grew 52.6% YoY

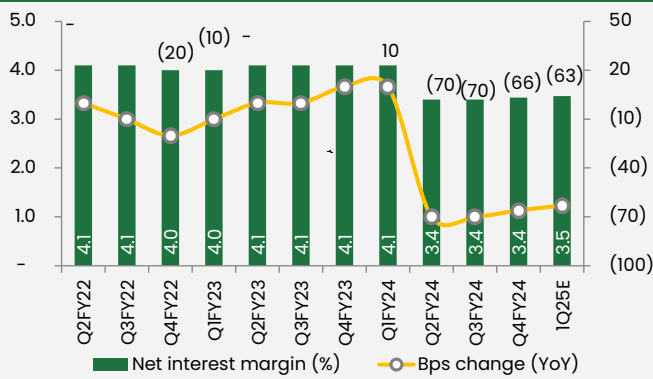


Deposits were almost flat on QoQ while it grew 24.4% YoY

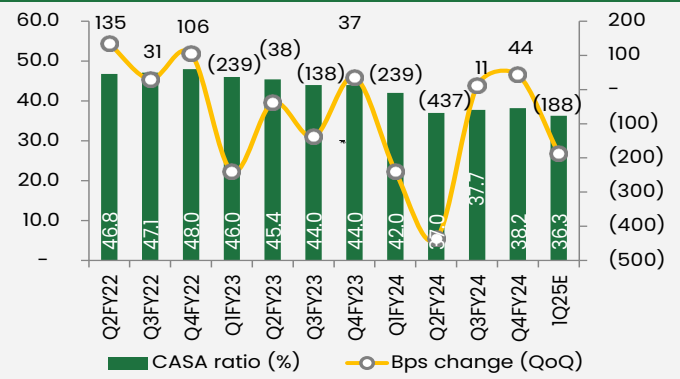


Source : RBL Research

NIMs improved 3bps QoQ, however, declined by 63bps YoY

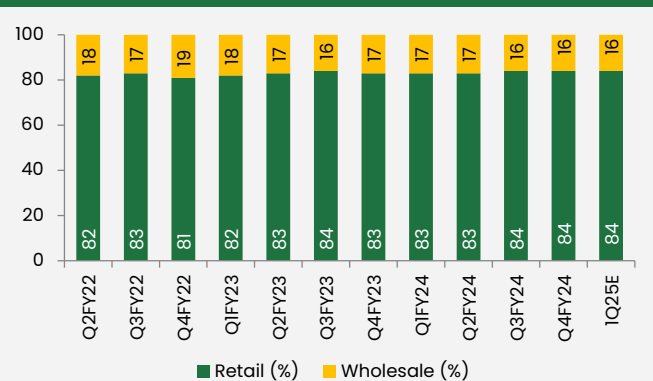


CASA ratio declined on QoQ basis by 188bps

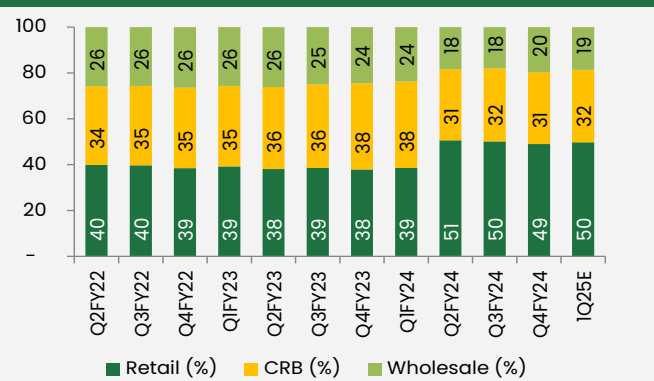


Source : RBL Research

Increasing share of retail in the overall loan mix

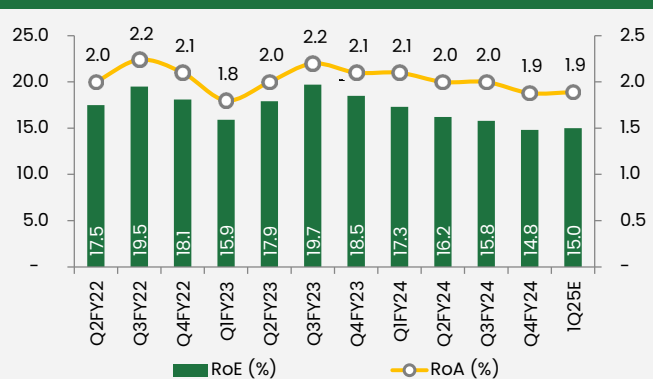


Declining wholesale loans in the loan mix

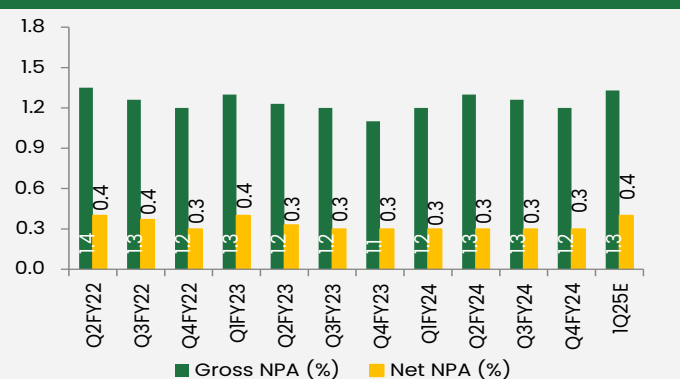


Source : RBL Research

RoE/RoA maintained at 15%/1.89%



Asset quality remains strong with GNPA/NNPA at 1.3%/0.4%



Source : RBL Research

## Income statement – standalone

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Interest earned	1,61,586	2,58,341	3,07,058	3,75,279
Interest expended	74,743	1,49,808	1,74,164	2,05,796
<b>Net interest income</b>	<b>86,842</b>	<b>1,08,532</b>	<b>1,32,894</b>	<b>1,69,484</b>
Other income	31,215	49,241	56,627	66,820
<b>Total income</b>	<b>1,18,057</b>	<b>1,57,773</b>	<b>1,89,521</b>	<b>2,36,304</b>
Employee cost	15,512	22,240	25,833	27,940
Other operating expenses	32,140	41,146	49,311	53,826
Operating expenses	47,652	63,386	75,143	81,766
<b>Operating profit before provisions</b>	<b>70,405</b>	<b>94,387</b>	<b>1,14,378</b>	<b>1,54,538</b>
Provisions and contingencies	11,920	23,492	18,917	21,913
<b>Profit before tax</b>	<b>58,485</b>	<b>70,895</b>	<b>95,461</b>	<b>1,32,624</b>
Tax	14,377	10,083	23,392	32,498
Tax rate (%)	24.6	14.2	24.5	24.5
<b>Profit after tax</b>	<b>44,109</b>	<b>60,812</b>	<b>72,069</b>	<b>1,00,127</b>
<b>EPS (Rs.)</b>	<b>79.3</b>	<b>80.0</b>	<b>94.9</b>	<b>131.8</b>

Source : RBL Research

## Balance sheet – standalone

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Equity share capital	558	760	760	760
Reserves and Surplus	2,79,641	4,39,486	5,11,555	6,11,681
<b>Net worth</b>	<b>2,80,199</b>	<b>4,40,246</b>	<b>5,12,314</b>	<b>6,12,441</b>
<b>Deposits</b>	<b>18,83,395</b>	<b>23,79,786</b>	<b>27,84,366</b>	<b>33,31,364</b>
Borrowings	2,06,766	6,62,153	7,08,504	7,53,967
Other liabilities and Provisions	95,722	1,35,438	1,48,323	1,64,866
<b>Total equity and liabilities</b>	<b>24,66,081</b>	<b>36,17,623</b>	<b>41,53,507</b>	<b>48,62,638</b>
Cash and bank balance	1,93,765	1,78,683	1,02,856	58,953
Investments	5,17,001	7,02,415	8,78,019	11,19,601
Advances	16,00,586	24,84,862	29,10,314	33,71,277
Fixed assets	8,017	11,399	14,668	17,150
Other assets	1,46,713	1,99,800	2,47,650	2,95,658
<b>Total assets</b>	<b>24,66,081</b>	<b>36,17,623</b>	<b>41,53,507</b>	<b>48,62,638</b>
BVPS (Rs.)	502.0	580.0	674.4	806.2
<b>Adj. BVPS (Rs.)</b>	<b>492.4</b>	<b>539.0</b>	<b>628.6</b>	<b>752.0</b>

Source : RBL Research

## Business and efficiency ratios (%)

Particulars	FY23	FY24	FY25E	FY26E
Loans/Deposit	85.0	104.4	104.5	101.2
<b>CASA ratio</b>	<b>44.0</b>	<b>38.2</b>	<b>38.6</b>	<b>39.4</b>
Cost/Assets	1.9	1.8	1.8	1.7
Interest expense/Interest income	46.3	58.0	56.7	54.8
Investment/Deposit Ratio	27.5	29.5	31.5	33.6
Employee cost/Total expense	32.6	35.1	34.4	34.2

Source : RBL Research

**Asset quality – standalone**

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
GNPA	18,019	31,173	34,748	41,153
NNPA	4,368	8,091	8,758	9,587
Slippages	24,536	30,376	40,744	50,569
<b>GNPA (%)</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>
<b>NNPA (%)</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Slippages (%)	1.5	1.2	1.4	1.5
Provision coverage ratio (%)	75.8	74.0	74.8	76.7
Credit cost (%)	0.8	0.9	0.7	0.7

Source : RBL Research

**Growth ratio (%)**

Particulars	FY23	FY24	FY25E	FY26E
Interest earned	26.6	19.3	18.9	22.2
Other income	7.6	36.3	15.0	18.0
Total income	23.5	21.7	18.2	21.6
Interest expended	34.3	35.3	16.3	18.2
<b>Net interest income</b>	<b>19.5</b>	<b>2.5</b>	<b>22.4</b>	<b>27.5</b>
Operating profit before provisions	11.2	2.7	21.2	35.1
Profit after tax	19.9	1.3	18.5	38.9
<b>Advances</b>	<b>16.9</b>	<b>55.2</b>	<b>17.1</b>	<b>15.8</b>
Deposits	20.8	26.4	17.0	19.6

Source : RBL Research

**Yields and cost ratio (%) – standalone**

Particulars	FY23	FY24	FY25E	FY26E
Yields on interest earning assets	8.0	8.1	8.1	8.4
Cost of deposits	3.9	4.9	5.0	5.0
Interest spread	4.1	3.2	3.1	3.3
<b>RoA</b>	<b>2.1</b>	<b>2.0</b>	<b>1.7</b>	<b>2.1</b>
<b>RoE</b>	<b>17.4</b>	<b>16.1</b>	<b>14.1</b>	<b>16.3</b>
Net interest margin	4.1	3.4	3.5	3.8

Source : RBL Research

**Valuations (x)**

Particulars	FY23	FY24	FY25E	FY26E
P/E	20.6	20.4	17.2	12.4
P/BV	3.3	2.8	2.4	2.0
<b>P/Adj. BV</b>	<b>3.3</b>	<b>3.0</b>	<b>2.6</b>	<b>2.2</b>
Dividend per share (Rs.)	19.0	19.7	20.8	21.9
Dividend yield (%)	1.2	1.2	1.3	1.3

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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