

Stable margin and asset quality, defying industry trend

BFSI - Banks ▶ Result Update ▶ October 20, 2024

TARGET PRICE (Rs): 2,000

HDFC Bank reported a 3% PAT beat at Rs168bn/1.9% RoA, primarily due to stable margins, contained opex, and provisions (due to reversal of Rs6.8bn AIF provisions). After an upset in 1Q, deposit growth returned – up 15% YoY/5% QoQ (Rs1.2trn), but credit growth fell to a low of 7% YoY as the bank focused on LDR management (down by 375bps QoQ to 100%) to allay regulatory concerns. However, the bank managed to maintain NIMs at 3.65% owing to better portfolio mix, defying the industry trend. Asset quality also held up well with GNPA ratio largely flat at 1.36% vs far more deterioration for peers, as the bank consciously contained growth in unsecured loans for the past few years. We retain BUY with TP of Rs2,000 based on 2.4x Sep-26E Standalone Bank ABV and subs valuations (Rs300/sh). Bank has received board approval to launch an IPO of its NBFC subsidiary – HDB Financial Services amounting to Rs125bn (incl OFS of Rs100bn) – to meet the regulatory guidelines and also unlock value.

HDFC Bank: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	441,087	608,123	681,408	776,065	909,123
Loan growth (%)	16.9	55.2	7.4	10.0	12.0
NII growth (%)	20.6	25.0	13.8	11.7	15.2
NIM (%)	4.1	3.4	3.5	3.5	3.6
PPOP growth (%)	9.9	34.1	9.0	14.6	18.7
Adj. EPS (Rs)	79.1	80.0	89.3	101.7	119.1
Adj. EPS growth (%)	18.6	1.3	11.6	13.9	17.1
Adj. BV (Rs)	497.8	553.6	620.7	696.6	785.4
Adj. BVPS growth (%)	19.2	18.9	15.5	13.6	11.6
RoA (%)	1.9	1.8	1.8	1.9	1.9
RoE (%)	17.0	14.2	14.6	14.8	15.4
P/E (x)	19.2	17.3	15.5	13.6	11.6
P/ABV (x)	3.0	2.5	2.2	2.0	1.8

Source: Company, Emkay Research

Bank to calibrate credit growth to ease LDR and PSL pressure

HDFCB reported sub-system credit growth at ~7% YoY/1% QoQ as the bank continued shedding of eHDFCL's low yielding corporate book (down 3% QoQ) and also selling off the retail portfolio. However, the bank continues to grow its CRB book (32% of overall advances) at a faster pace to drive up yields and also help build organic PSL to meet the regulatory guidelines. Deposits grew at a strong pace of ~15% YoY/5% QoQ, allowing the LDR to further cool down by 375bps to ~100%; the bank plans to gradually move toward pre-merger LDR. The bank has guided that its credit growth for full year FY25 shall be lower than the system growth in order to reduce its higher LDR to pre-merger levels; for FY26, the bank's credit growth will be cloning the system growth, while the same shall outpace the system growth in FY27. It shall still manage margins at current levels, aided by improving portfolio mix and funding cost, by gradually retiring eHDFCL's high-cost debt. Separately, the LCR is currently higher at 128% due to one-off timing differences arising on account of raising granular, retail-driven deposits, but it is expected to remain range bound at 110-120%.

Asset quality remains largely stable vs higher deterioration for peers

Bank reported slippages of Rs78bn/1.3% of loans, leading to slight increase in the GNPA/NNPA ratio by 3bps/2bps QoQ to 1.4%/0.4%. Management indicates that its unsecured loan portfolio is exhibiting resilient outcomes as it did not grow over the past few years, but they remain watchful. The bank's specific PCR has fallen to 70%, whereas it has partly consumed contingent provision buffer (now stands at 1.1% of loans; Rs34/sh). We believe that HDFC Bank will shore up specific PCR or build contingent provision buffer as it realizes one-off gains from stake sale in HDB Financial Services.

Retain BUY with a TP of Rs2,000

We retain BUY with a TP of Rs2,000 based on 2.4x Sep-26E Standalone Bank ABV and subs valuations (Rs300/sh). Bank has taken board approval to launch IPO of its NBFC subsidiary – HDB Financial Services to the tune of Rs125bn (including OFS of Rs100bn) to meet the regulatory guidelines and also unlock value.

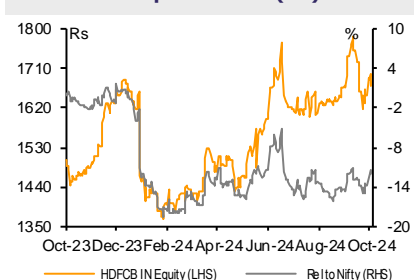
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	18.9
CMP (18-Oct-24) (Rs)	1,681.9

Stock Data	Ticker
52-week High (Rs)	1,794
52-week Low (Rs)	1,363
Shares outstanding (mn)	7,630.8
Market-cap (Rs bn)	12,834
Market-cap (USD mn)	152,652
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	21
ADTV-3M (Rs mn)	34,878.1
ADTV-3M (USD mn)	414.9
Free float (%)	99.0
Nifty-50	24,854
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	-
FPIs/MFs (%)	41.5/30.6

Price Performance

(%)	1M	3M	12M
Absolute	(0.8)	4.2	10.7
Rel. to Nifty	1.3	3.9	(12.4)

1-Year share price trend (Rs)



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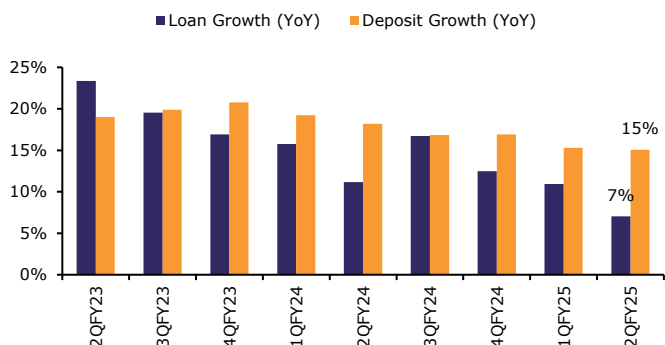
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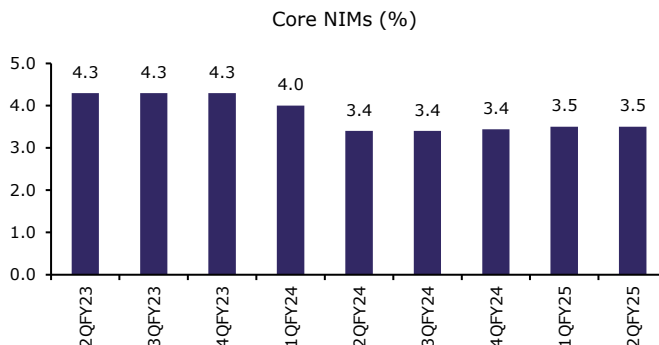
Story in Charts

Exhibit 1: Bank adopts calibrated credit growth strategy to ease LDR and PSL pressure



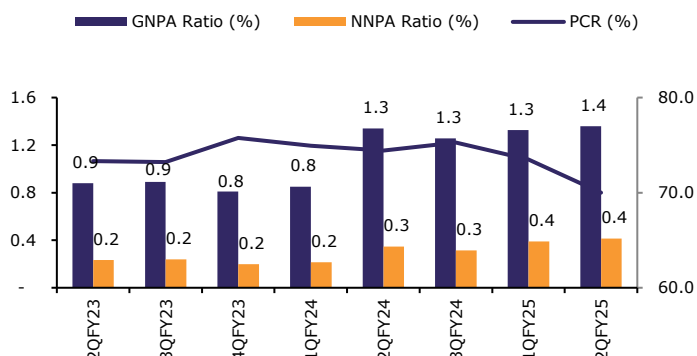
Source: Company, Emkay Research

Exhibit 2: NIM remains stable amid contraction seen across peers



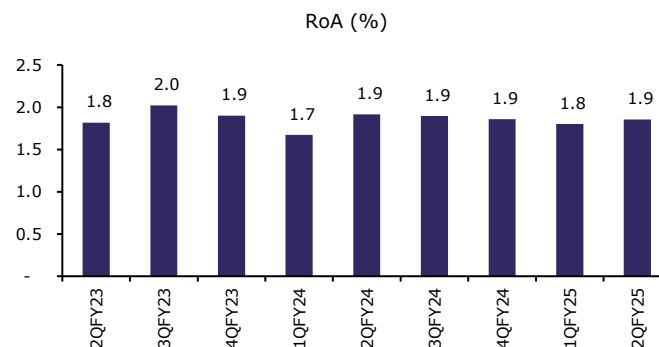
Source: Company, Emkay Research; Note: Figures from Q2FY24 represent NIMs on a merged basis and are therefore not comparable with the historical trend

Exhibit 3: Asset quality remains largely stable



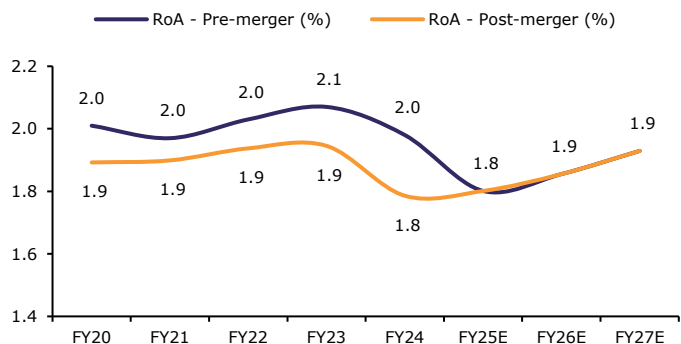
Source: Company, Emkay Research

Exhibit 4: RoA improves a bit QoQ due to stable margins, contained opex, and provisions



Source: Emkay Research

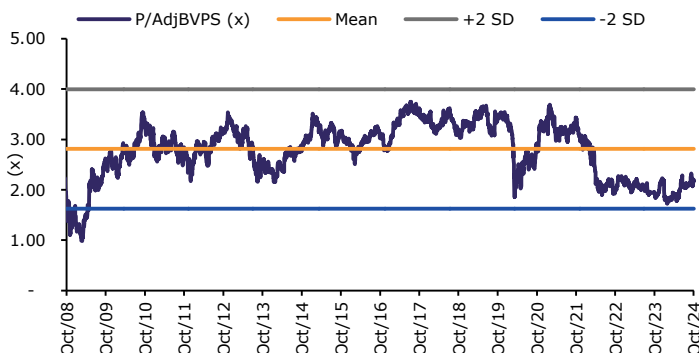
Exhibit 5: RoA of the bank reduced after the merger and is expected to improve going forward



Source: Company, Emkay Research

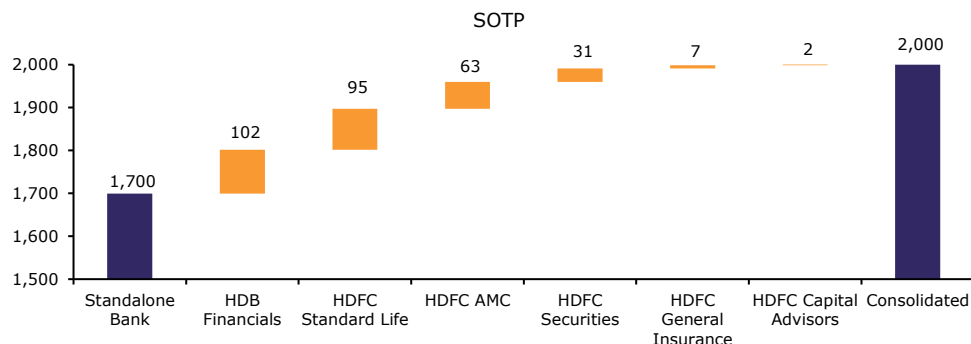
Note: Pre-merger FY24 RoA represent reported no., while post-merger FY24 RoA is on computed basis

Exhibit 6: HDFCB trades at 2.2x 1Y-forward ABV



Source: Bloomberg, Emkay Research

Exhibit 7: SOTP-based valuation



Source: Company, Emkay Research

Exhibit 8: Actuals vs Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	415,966	416,632	418,246	0%	-1%	Stable NIMs lead to in-line net income
PPOP	247,057	241,576	248,053	2%	0%	Contained opex lead to a beat
PAT	168,210	163,458	162,543	3%	3%	PPOP beat and reversal of AIF provisions lead to a PAT beat

Source: Company, Emkay Research

Exhibit 9: Quarterly Summary

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	676,984	705,826	714,728	730,331	740,169	9.3	1.3	2,583,406	3,023,865	17.0
Interest Exp	403,132	421,113	423,959	431,960	439,030	8.9	1.6	1,498,081	1,788,413	19.4
Net Interest Income	273,852	284,713	290,768	298,371	301,139	10.0	0.9	1,085,325	1,235,452	13.8
Global NIMs (reported)	3.60	3.60	3.63	3.66	3.65	5bps	-1bps	3.38	3.48	-10bps
Non-interest Income	107,078	111,370	181,663	106,681	114,827	7.2	7.6	492,410	493,770	0.3
Operating Expenses	153,992	159,611	179,688	166,206	168,909	9.7	1.6	633,860	700,822	10.6
Pre Provisioning Profit	226,939	236,473	292,742	238,846	247,057	8.9	3.4	943,874	1,028,400	9.0
Provision & Contingencies	29,038	42,166	135,116	26,021	27,005	-7.0	3.8	234,921	137,671	-41.4
PBT	197,901	194,307	157,626	212,826	220,053	11.2	3.4	708,953	890,729	25.6
Income Tax Expense (Gain)	38,139	30,581	-7,493	51,078	51,843	35.9	1.5	100,830	209,321	107.6
Net Profit/(Loss)	159,761	163,725	165,119	161,748	168,210	5.3	4.0	608,123	681,408	12.1
Gross NPA (%)	1.34	1.26	1.24	1.33	1.36	2bps	3bps	1.24	1.30	-6bps
Net NPA (%)	0.35	0.31	0.33	0.39	0.41	7bps	2bps	0.33	0.37	-4bps
Deposits (Rs bn)	21,729	22,140	23,798	23,791	25,001	15.1	5.1	23,798	27,758	16.6
Net Advances (Rs bn)	23,312	24,461	24,849	24,635	24,951	7.0	1.3	24,849	26,683	7.4

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	1,710,644	1,729,222	1.1%	1,973,800	1,969,169	-0.2%	2,319,042	2,298,227	-0.9%
PPOP	998,964	1,028,400	2.9%	1,164,848	1,178,673	1.2%	1,402,294	1,399,060	-0.2%
PAT	679,553	681,408	0.3%	768,598	776,065	1.0%	910,067	909,123	-0.1%
EPS (Rs)	89.5	89.3	-0.2%	101.2	101.7	0.5%	119.8	119.1	-0.5%
BV (Rs)	650.9	648.2	-0.4%	728.1	725.9	-0.3%	819.9	817.0	-0.3%

Source: Company, Emkay Research

Exhibit 11: Key assumptions

(%)	FY24	FY25E	FY26E	FY27E
Loan Growth	55.2	7.4	10.0	12.0
Deposit Growth	26.4	16.6	18.3	18.1
NIM	3.4	3.5	3.5	3.6
GNPA	1.2	1.3	1.4	1.4
Credit Cost	0.6	0.5	0.5	0.6

Source: Emkay Research

Exhibit 12: Key ratios and trend

(Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans*	14,799	15,068	16,006	16,157	23,312	24,461	24,849	24,635	24,951
YoY growth (%)	23.4	19.5	16.9	15.8	57.5	62.3	55.2	52.5	7.0
QoQ growth (%)	6.1	1.8	6.2	0.9	44.3	4.9	1.6	(0.9)	1.3
Composition (%)									
- Corporate	65.2	63.1	63.9	63.0	48.5	48.5	47.7	46.5	46.4
- Retail	31.7	34.1	33.5	34.4	51.5	49.8	50.8	52.0	52.7
- Overseas	3.1	2.8	2.6	2.6	-	1.7	1.5	1.5	1.5
Liability Profile and Margins									
Deposits*	16,734	17,332	18,834	19,131	21,729	22,140	23,798	23,791	25,001
YoY growth (%)	19.0	19.9	20.8	19.2	29.8	27.7	26.4	24.4	15.1
QoQ growth (%)	4.3	3.6	8.7	1.6	13.6	1.9	7.5	(0.0)	5.1
CA	2,300	2,277	2,735	2,524	2,477	2,558	3,100	2,673	2,754
SA	5,297	5,352	5,625	5,606	5,700	5,799	5,987	5,964	6,081
CASA (%)	45.4	44.0	44.4	42.5	37.6	37.7	38.2	36.3	35.3
CA (%)	13.7	13.1	14.5	13.2	11.4	11.6	13.0	11.2	11.0
SA (%)	31.7	30.9	29.9	29.3	26.2	26.2	25.2	25.1	24.3
NIM (%) (on IEA)	4.3	4.3	4.3	4.3	3.6	3.6	3.6	3.7	3.7
Branches (no. of)	6,499	7,183	7,821	7,860	7,945	8,091	8,738	8,851	9,092
Asset Quality and Capital Adequacy (%)									
GNPA	0.9	0.9	0.8	0.8	1.3	1.3	1.2	1.3	1.4
NNPA	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4
PCR	73.5	73.0	75.6	74.7	74.2	75.0	73.4	70.7	69.6
CAR	18.0	19.4	19.3	18.9	19.5	18.4	18.8	19.3	19.8
Tier I	17.1	17.2	17.1	16.9	17.8	16.8	16.8	17.3	17.8
ROE Decomposition (%)									
NII	3.6	3.8	3.7	3.3	3.3	3.3	3.3	3.3	3.3
Other Income (Ex Treasury)	1.3	1.4	1.4	1.2	1.2	1.1	1.2	1.2	1.2
Opex	1.9	2.1	2.1	2.0	1.8	1.8	2.0	1.9	1.9
PPOP	3.0	3.1	2.9	2.6	2.7	2.7	3.3	2.7	2.7
Provisioning Cost	0.6	0.5	0.4	0.4	0.3	0.5	1.5	0.3	0.3
PBT	2.4	2.7	2.5	2.2	2.4	2.2	1.8	2.4	2.4
ROA	1.8	2.0	1.9	1.7	1.9	1.9	1.9	1.8	1.9
Leverage (x)	9.2	9.1	9.1	9.7	8.2	8.2	8.1	7.8	7.8
ROE	16.7	18.3	17.2	16.3	15.8	15.5	15.0	14.1	14.5

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	3,023,865	3,242,879	3,551,238
Interest Expense	747,433	1,498,081	1,788,413	1,863,109	1,961,548
Net interest income	868,422	1,085,325	1,235,452	1,379,770	1,589,690
NII growth (%)	20.6	25.0	13.8	11.7	15.2
Other income	312,148	492,410	493,770	589,399	708,537
Total Income	1,180,571	1,577,735	1,729,222	1,969,169	2,298,227
Operating expenses	476,521	633,860	700,822	790,497	899,167
PPOP	704,050	943,874	1,028,400	1,178,673	1,399,060
PPOP growth (%)	9.9	34.1	9.0	14.6	18.7
Core PPOP	715,361	828,613	981,912	1,122,888	1,337,696
Provisions & contingencies	119,197	234,921	137,671	150,772	183,655
PBT	584,853	708,953	890,729	1,027,901	1,215,405
Extraordinary items	0	0	0	0	0
Tax expense	143,766	100,830	209,321	251,836	306,282
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	441,087	608,123	681,408	776,065	909,123
PAT growth (%)	19.3	37.9	12.1	13.9	17.1
Adjusted PAT	441,087	608,123	681,408	776,065	909,123
Diluted EPS (Rs)	79.1	80.0	89.3	101.7	119.1
Diluted EPS growth (%)	18.6	1.3	11.6	13.9	17.1
DPS (Rs)	19.1	22.5	21.0	24.0	28.0
Dividend payout (%)	24.0	24.4	23.5	23.6	23.5
Effective tax rate (%)	24.6	14.2	23.5	24.5	25.2
Net interest margins (%)	4.1	3.4	3.5	3.5	3.6
Cost-income ratio (%)	40.4	40.2	40.5	40.1	39.1
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	350,519.7	403,851.7	468,561.0
Net NPLs	43,684.2	80,917.3	98,145.5	117,117.0	140,568.3
GNPA ratio (%)	1.1	1.2	1.3	1.4	1.4
NNPA ratio (%)	0.3	0.3	0.4	0.4	0.4
Provision coverage (%)	75.8	74.0	72.0	71.0	70.0
Gross slippages	245,363.1	402,621.0	323,223.7	355,546.1	431,395.9
Gross slippage ratio (%)	1.5	1.6	1.2	1.2	1.3
LLP ratio (%)	0.8	0.6	0.5	0.5	0.6
NNPA to networth (%)	1.5	1.8	1.9	2.1	2.2
Capital adequacy					
Total CAR (%)	19.3	18.8	19.0	18.7	18.5
Tier-1 (%)	17.1	16.8	17.2	17.1	17.1
CET-1 (%)	16.4	17.5	17.8	18.2	18.2
RWA-to-Total Assets (%)	64.3	68.2	69.0	70.0	67.0
Miscellaneous					
Total income growth (%)	22.6	59.5	14.4	8.9	11.2
Opex growth (%)	27.3	33.0	10.6	12.8	13.7
Core PPOP growth (%)	15.8	15.8	18.5	14.4	19.1
PPOP margin (%)	36.5	30.7	29.2	30.8	32.8
PAT/PPOP (%)	62.7	64.4	66.3	65.8	65.0
LLP-to-Core PPOP (%)	16.7	28.4	14.0	13.4	13.7
Yield on advances (%)	8.6	10.2	9.5	9.3	9.1
Cost of funds (%)	3.9	5.8	5.6	5.3	4.9

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	4,938,628	5,531,554	6,227,014
Net worth	2,801,990	4,402,458	4,946,259	5,539,184	6,234,645
Deposits	18,833,946	23,797,863	27,758,082	32,841,606	38,789,609
Borrowings	2,317,656	6,962,326	5,688,596	4,619,036	3,763,388
Interest bearing liab.	21,151,602	30,760,189	33,446,678	37,460,642	42,552,997
Other liabilities & prov.	707,222	1,013,584	1,090,239	1,187,488	1,271,748
Total liabilities & equity	24,660,815	36,176,231	39,483,176	44,187,315	50,059,390
Net advances	16,005,859	24,848,615	26,682,934	29,342,105	32,856,308
Investments	5,170,014	7,024,150	8,001,875	9,228,419	10,592,925
Cash, other balances	1,937,651	2,191,474	2,340,516	2,809,548	3,404,240
Interest earning assets	23,113,524	34,064,239	37,025,325	41,380,072	46,853,473
Fixed assets	80,165	113,990	124,876	133,916	143,543
Other assets	1,467,125	1,998,002	2,332,975	2,673,327	3,062,374
Total assets	24,660,815	36,176,231	39,483,176	44,187,315	50,059,390
BVPS (Rs)	503.7	579.5	648.2	725.9	817.0
Adj. BVPS (INR)	497.8	553.6	620.7	696.6	785.4
Gross advances	16,142,365	25,079,431	26,935,309	29,628,840	33,184,300
Credit to deposit (%)	85.0	104.4	96.1	89.3	84.7
CASA ratio (%)	44.4	38.2	34.8	33.3	33.4
Cost of deposits (%)	3.6	4.7	5.0	5.0	4.8
Loans-to-Assets (%)	64.9	68.7	67.6	66.4	65.6
Net advances growth (%)	16.9	55.2	7.4	10.0	12.0
Deposit growth (%)	20.8	26.4	16.6	18.3	18.1
Book value growth (%)	16.0	15.0	11.9	12.0	12.6

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	19.2	17.3	15.5	13.6	11.6
P/B (x)	3.0	2.4	2.1	1.9	1.7
P/ABV (x)	3.0	2.5	2.2	2.0	1.8
P/PPOP (x)	12.0	11.1	10.3	8.9	7.5
Dividend yield (%)	1.1	1.3	1.3	1.4	1.7
DuPont-RoE split (%)					
NII/avg assets	3.8	3.2	3.3	3.3	3.4
Other income	1.4	1.4	1.3	1.4	1.5
Fee income	1.4	1.1	1.1	1.12	1.3
Opex	2.1	1.9	1.9	1.9	1.9
PPOP	3.0	2.5	2.2	2.0	1.8
Core PPOP	3.2	2.7	2.6	2.7	2.8
Provisions	0.5	0.7	0.4	0.4	0.4
Tax expense	0.6	0.3	0.6	0.6	0.6
RoA (%)	1.9	1.8	1.8	1.9	1.9
Leverage ratio (x)	8.7	8.0	8.1	8.0	8.0
RoE (%)	17.0	14.2	14.6	14.8	15.4

Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	273,852	284,713	290,768	298,371	301,139
NIM (%)	3.6	3.6	3.6	3.7	3.7
PPOP	226,939	236,473	292,472	238,846	247,057
PAT	159,761	163,725	165,119	161,748	168,210
EPS (Rs)	21.0	21.6	21.7	21.2	22.0

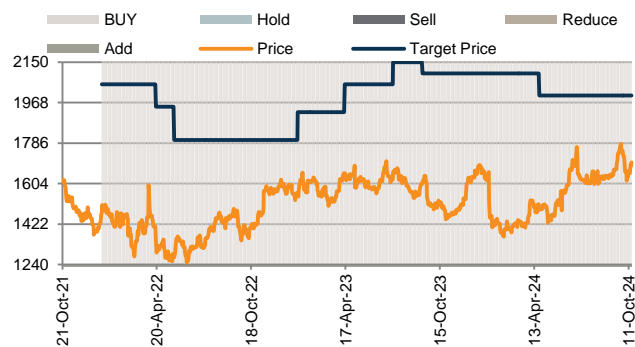
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Jul-24	1,607	2,000	Buy	Anand Dama
22-Apr-24	1,492	2,000	Buy	Anand Dama
17-Jan-24	1,517	2,100	Buy	Anand Dama
30-Nov-23	1,538	2,100	Buy	Anand Dama
17-Oct-23	1,520	2,100	Buy	Anand Dama
19-Sep-23	1,607	2,100	Buy	Anand Dama
11-Sep-23	1,610	2,100	Buy	Anand Dama
17-Jul-23	1,656	2,150	Buy	Anand Dama
25-May-23	1,588	2,050	Buy	Anand Dama
24-Apr-23	1,647	2,050	Buy	Anand Dama
15-Apr-23	1,651	2,050	Buy	Anand Dama
09-Mar-23	1,590	1,925	Buy	Anand Dama
15-Jan-23	1,561	1,925	Buy	Anand Dama
04-Jan-23	1,570	1,800	Buy	Anand Dama
16-Oct-22	1,404	1,800	Buy	Anand Dama
04-Oct-22	1,417	1,800	Buy	Anand Dama
17-Jul-22	1,328	1,800	Buy	Anand Dama
01-Jun-22	1,360	1,800	Buy	Anand Dama
23-May-22	1,272	1,800	Buy	Anand Dama
18-Apr-22	1,345	1,950	Buy	Anand Dama
05-Apr-22	1,551	2,050	Buy	Anand Dama
04-Apr-22	1,597	2,050	Buy	Anand Dama
16-Jan-22	1,490	2,050	Buy	Anand Dama
04-Jan-22	1,474	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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