HDFC Bank

India | Banking & Financials | **Result Update**

Undergoing a period of hard readjustments

22 January 2025

HDFC Bank's (HDFCB IN) Q3FY25 PAT at INR 167bn (up 2% YoY) was as expected. However, characteristically, Q3 had softer undertones as expectations were low. Q3 witnessed: a) materially slow loan growth (sub-5% YoY) in a bid to fast-track realignment of CD ratios (now at 98.2%), b) strong deposit growth at >15% YoY, but this has its funding cost implications – NIMs declined 3bps QoQ (reported) and c) asset quality outcomes were steady (slippages at 1.4%), better than peers. We have time again highlighted HDFCB's conundrum to manage growth versus NIM versus LCR versus CD ratio outcomes, which may cause dislocations. Its stance to accelerate CD ratio adjustments and positioning for the next cycle imply that it will undergo an elongated period of balance sheet realignment with sustained lower growth. Thus, near-term outcomes will be onerous. HDFCB is still away from an upswing in core earnings, and the stock may see time correction. We maintain Accumulate with TP retained at INR 1,898.

Balancing growth, NIM, CD ratio and LCR may have dislocations: Q3 loan growth outcomes (sub-5% YoY) have been lower (even on muted expectations). However, deposit growth has been better (up 15% YoY), but much is still left to be desired, especially as it has funding cost implications. HDFCB's stance of accelerating the drop in CD ratios (currently ~98%) could be onerous on earnings, even as there is natural momentum in the machinery (bank's infrastructure). HDFCB seems to be making the right moves, but balance sheet realignment will be challenging and will continue to hamper multiples in absence of growth outcomes.

Much to ponder on as focus on NIM trajectory sustains: HDFCB reported a 3bps QoQ drop in NIMs (by 3bps QoQ to 3.62% on earnings assets). The improving NIM argument seems weaker with limited progress thus far. Any accelerated LDR cut, with current liquidity scenario, may strain NIMs (not to mention, any rate change at the system level). Given already low credit cost and limited levers in opex (investment needs), earnings pressure could sustain in the near term.

Asset quality, the key differentiator: Slippages were curtailed (1.4%), with marginal QoQ rise driven by the agri segment (seasonal impact). HDFCB used contingent provisions (INR 3bn, as cash was received for wholesale account) and has maintained coverage of 71% (ex-agri) and buffer (floating plus contingent) of 1% (of loans). We see credit cost outcomes to be steady for HDFCB.

Recommend Accumulate; TP retained at INR 1,898: A merger (with HDFC) of this scale is an onerous ask, but HDFCB is doing a commendable job at that. That said, we see HDFCB still undergoing a transition and near-term uncertainty persisting. We believe a valuation re-rating in absence of growth outcomes is rather challenging. Other school of thought is better asset quality outcomes in a challenging environment. However, benefit on that may be limited – Maintain **Accumulate**.

Key Financials

YE Mar (INR bn)	FY23	FY24	FY25E	FY26E	FY27E
PPoP (INR bn)	641	704	944	1,025	1,143
YoY (%)	11.7	9.9	34.1	8.6	11.5
NP (INR bn)	370	441	608	666	729
YoY (%)	18.8	19.3	37.9	9.6	9.4
EPS (INR)	66.7	79.1	80.0	87.7	96.0
YoY (%)	18.1	18.6	1.3	9.6	9.4
P/PPOP (x)	19.9	18.1	13.5	12.4	11.1
RoAA (%)	0.0	2.1	2.1	1.9	1.9
RoAE (%)	0.0	17.0	16.9	14.4	14.2
P/E (x)	22.8	19.2	19.0	17.3	15.8
P/BV (x)	3.5	3.0	2.6	2.4	2.1

Note: Pricing as on 22 January 2025; Source: Company, Elara Securities Estimate

Rating: Accumulate

Target Price: INR 1,898

Upside: 14%

CMP: INR 1,666

As on 22 January 2025

Key data	
Bloomberg	HDFCB IN
Reuters Code	HDBK.NS
Shares outstanding (mn)	7648
Market cap (INR bn/USD mn)	12,742/14,7589
Avg daily volume 3M (INR mn/USD mn)	31,474/365
52 week high/low	1,880/1,363
Free float (%)	100

Note: as on 22 January 2025; Source: Bloomberg

Price chart

Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	-	-	-	-
% Pledged	-	-	-	-
FII	47.8	47.2	48.0	49.2
DII	33.6	35.5	35.3	34.6
Others	18.6	17.4	16.7	16.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.4)	(5.5)	7.3
HDFC Bank	(2.8)	1.4	12.7
NSE Mid-cap	(5.4)	(6.2)	10.5
NSE Small-cap	(4.9)	(7.5)	10.7

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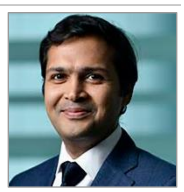

Global Markets Research

Financials (YE March)

Income statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net interest income	**868,422**	**1,085,325**	**1,259,560**	**1,380,041**	**1,543,718**
YoY growth (%)	*20.6*	*25.0*	*16.1*	*9.6*	*11.9*
Fee income	273,449	330,360	384,194	441,247	505,556
Trading profits	(13,411)	106,530	18,000	25,000	40,000
Non-interest income	312,148	492,410	469,333	545,957	628,124
Net operating revenue	1,180,571	1,577,735	1,728,893	1,925,998	2,171,842
YoY growth (%)	*16.3*	*33.6*	*9.6*	*11.4*	*12.8*
Operating expenses	476,521	633,860	703,835	782,904	860,931
YoY growth (%)	*27.3*	*33.0*	*11.0*	*11.2*	*10.0*
Pre-provisioning operating profit	**704,050**	**943,875**	**1,025,057**	**1,143,094**	**1,310,911**
YoY growth (%)	*9.9*	*34.1*	*8.6*	*11.5*	*14.7*
Provisions for bad debts	119,197	234,921	142,207	168,893	208,579
Profit before tax	584,853	708,953	882,850	974,201	1,102,332
Tax	143,766	100,830	216,475	245,206	277,457
Profit after tax	**441,087**	**608,123**	**666,375**	**728,995**	**824,875**
YoY growth (%)	*19.3*	*37.9*	*9.6*	*9.4*	*13.2*
Balance sheet (INR bn)	**FY23E**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Loans	16,006	24,849	27,160	30,283	34,220
YoY growth (%)	*16.9*	*55.2*	*9.3*	*11.5*	*13.0*
Investments	5,170	7,024	7,527	8,085	8,814
Cash & bank balances	1,938	2,191	2,447	2,455	2,525
Fixed assets	80	114	148	176	197
Other assets	1,467	1,998	2,093	2,334	2,637
Total Assets	**24,661**	**36,176**	**39,375**	**43,332**	**48,392**
Net worth	2,802	4,402	4,876	5,412	6,019
Deposits	18,834	23,798	27,725	32,244	37,370
YoY growth (%)	*20.8*	*26.4*	*16.5*	*16.3*	*15.9*
Borrowings	2,068	6,622	5,286	4,091	3,297
Other liabilities	957	1,354	1,488	1,585	1,707
Total Liabilities	**24,661**	**36,176**	**39,375**	**43,332**	**48,392**
Key operating ratios	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Lending yield	8.9	9.2	9.6	9.3	9.1
Cost of Funds	3.7	5.6	5.3	5.1	4.9
Spreads	3.8	3.4	3.2	3.2	3.2
Net interest margin	4.1	3.8	3.5	3.5	3.6
CASA Ratio (%)	44.4	38.2	35.0	35.3	35.8
Non-interest income / operating income	26.4	31.2	27.1	28.3	28.9
Cost/income	40.4	40.2	40.7	40.6	39.6
Operating expense/avg. assets	2.1	2.1	1.9	1.9	1.9
Credit costs / avg. loans	0.8	1.2	0.5	0.6	0.6
Effective tax rate	24.6	14.2	24.5	25.2	25.2
Loan deposit ratio	85.0	104.4	98.0	93.9	91.6
ROA decomposition (%)	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
NII /Assets	4.1	3.8	3.5	3.5	3.6
Fees/Assets	1.5	1.3	1.3	1.3	1.4
Invst profits/Assets	(0.1)	0.4	0.1	0.1	0.1
Net revenues/Assets	5.5	5.5	4.9	4.9	5.0
Opex /Assets	(2.2)	(2.2)	(2.0)	(2.0)	(2.0)
Provisions/Assets	(0.6)	(0.8)	(0.4)	(0.4)	(0.5)
Taxes/Assets	(0.7)	(0.4)	(0.6)	(0.6)	(0.6)
Total costs/Assets	(3.4)	(3.4)	(3.0)	(3.1)	(3.1)
ROA	2.1	2.1	1.9	1.9	1.9
Equity/Assets	12.1	12.6	13.0	13.2	13.2
ROAE	17.0	16.9	14.4	14.2	14.4
Key financial ratios	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Tier I Capital adequacy	17.1	16.8	16.2	16.3	16.2
Gross NPL	1.1	1.2	1.4	1.4	1.4
Net NPL	0.3	0.3	0.4	0.4	0.4
Slippage ratio	1.8	1.7	1.5	1.7	1.7
Assets / equity (x)	8.8	8.2	8.1	8.0	8.0
Per share data					
EPS (INR)	79	80	88	96	109
YoY growth (%)	*19*	*1*	*10*	*9*	*13*
BVPS (INR)	502	580	642	712	792
Adj- BVPS (INR)	497	572	631	700	778
Dividend yields	1	1	2	2	2
Valuation (x)					
P/BV	3.0	2.6	2.4	2.1	1.9
P/ABV	3.1	2.7	2.4	2.2	2.0
P/E	19.2	19.0	17.3	15.8	14.0

Note: Pricing as on 22 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR bn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)	Q3FY25E	Variance (%)
Operating profit	247	239	3.4	227	8.9	258	(4.4)
PBT	220	213	3.4	198	11.2	228	(3.7)
Net profit	168	162	4.0	160	5.3	170	(0.9)

Source: Company, Elara Securities Estimate

Overall loan growth slower

- Q3FY25 gross loan growth was slower than deposit growth at 6% YoY and 1.9% QoQ (gross of IBPC). Growth was cushioned by commercial banking, up 2.7% QoQ, followed by retail (non-mortgages) at 2.5% QoQ and retail mortgages at 1.8% QoQ.
- In the retail segment, growth was led by personal loans, payment products and auto loans, up 2.5% QoQ, 2.4% QoQ and 1.7% QoQ, respectively. Despite HDFCB's conscious stance (also stipulated by the regulator) on unsecured loans, personal loans growth improved to 2.5% QoQ from 2.0% in the previous quarter – we remain watchful on asset quality trends in this segment. Gold loans, albeit on a low base, grew a healthy 27.5% YoY and 5% QoQ.
- Overall Commercial and Rural Banking (including agri), which drives HDFCB's MSME and PSL book, saw a healthy momentum of 2.3% QoQ. However, Agri loans saw a de-growth of 0.5% QoQ. In terms of PSL requirements, HDFCB meets the regulatory guidelines overall, with a slight miss in SMF and weaker section. In SMF and weaker section, HDFCB aims to grow organically.
- Growth momentum in corporate and wholesale loans picked up from its declining trend, up ~1% QoQ.
- HDFCB's priority to moderate the CD ratio is unchanged, and the management expects to continue the pace of moderation. Thus, HDFCB would be focused on deposit growth and improving advances growth led by a revival in macro-economic environment.
- Of the total book, floating is 70% (EBLR at 45% and latter pertains to MCLR and T-bill linked book) and fixed rate is 30%.

Deposit growth, key focus amid regulatory nudges in LDR and LCR norms

- Deposits grew at a healthy 15.8% YoY and 2.5% QoQ. On an average, sequential momentum in deposits was slightly better at 4.2% QoQ. Deposit momentum continues to be led by term deposits at 22.7% YoY and 4.6% QoQ. With LDR ratio at ~98%, HDFCB aims to lower it. We expect momentum to continue in the near-to-medium term.
- CASA traction continued to trend downwards, with overall CASA ratio witnessing a decline of 130bps QoQ to 34.03% as it was majorly hit by a high rate scenario, leading to a shift towards term deposits.
- In HDFCB's balance sheet, borrowings had ~15.2% share in Q3FY25 versus 21.1% in December 2023. HDFCB has scheduled a maturity of INR 600bn for FY25 of erstwhile HDFC. This run-down remains crucial for the bank as this would pare down the overall cost of funds.

NIM trajectory, key monitorable

- Reported NIM dropped 3bps sequentially to ~3.43% (on total assets) and to~ 3.62% on earnings assets.
- With improving deposit momentum and a slight drop in borrowings in the balance sheet mix, the cost of funds remains sequentially stable at 4.9%.
- HDFCB expects margin to be led by enhancement of retail mix, improved granular deposits, new customer additions, building up of account balances and substitution of high-cost borrowings on maturity with deposits (this may take time). In the near term, HDFCB expects NIM to remain range-bound as rate cuts will be an influential factor in the long term.

Overall asset quality – Slight uptick

- Asset quality witnessed a slight increase in Q3, with overall GNPL at 1.42% from 1.36% in Q2FY25. Slippages saw an uptick at INR 88bn (~1.4% of lagged loans) versus INR 77bn (~1.3% of lagged loans) in Q2FY25. However, slippages (ex-Agri) were broadly stable at INR 65bn, which renders comfort over asset quality challenges in the unsecured segment.
- On segmental basis, CRB GNPA saw an uptick of 19bps QoQ to 1.97%, largely driven by agri slippages as CRB (ex-Agri) GNPA saw an uptick of 3bps to 1.27%.
- HDFCB continues to maintain strong contingency buffer. Floating provisions were steady sequentially at INR 124bn whereas the bank utilized contingent provisions of ~INR 3bn, with total contingent provisions at ~INR 135bn as on Q3FY25.

Other highlights

- Income tax refund in Q3FY25 stood at ~INR 2bn versus ~INR 0.5bn in the previous quarter.
- RWA to total assets remained steady at 67%.
- Merger dynamics: Deposits were crucial as the customers would ideally bring in CASA accounts with an average balance of INR 30-32K. Of the total customer base of ~4mn, ~1.9mn has been brought on liability book and ~250K customers have been cross-sold products.
- HDB Financials: Loan growth continues to be healthy at 3.5% QoQ and 21.5% YoY. Gross Stage-3 assets saw a QoQ uptick to 2.25% (2.1% in Q2FY25).

Exhibit 1: P&L highlights – PAT at INR 167bn – supported by couple of one-offs

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
NII	229,878	233,518	235,991	273,852	284,713	290,768	298,371	301,139	306,533
Other income	84,998	87,312	92,299	107,078	111,370	181,663	106,681	114,827	114,536
Net revenue	314,877	320,830	328,289	380,931	396,084	472,431	405,053	415,966	421,068
Opex	124,636	134,621	140,569	153,992	159,611	179,688	166,206	168,909	171,064
PPoP	190,241	186,209	187,720	226,939	236,473	292,742	238,846	247,057	250,004
Investment gains	2,614	(377)	5,520	10,410	14,700	75,900	2,200	2,900	700
Core PPoP	187,627	186,586	182,200	216,529	221,773	216,842	236,646	244,157	249,304
Provisions	28,064	26,854	28,600	29,038	42,166	135,116	26,021	27,005	31,539
PBT	162,176	159,355	159,120	197,901	194,307	157,626	212,826	220,052	218,466
PAT	122,595	120,475	119,520	159,761	163,725	165,119	161,748	168,209	167,355
YoY (%)									
NII	24.6	23.7	21.1	30.3	23.9	24.5	26.4	10.0	7.7
Other income	3.9	14.3	44.5	41.0	31.0	108.1	15.6	7.2	2.8
Net revenue	18.3	21.0	26.9	33.1	25.8	47.3	23.4	9.2	6.3
Opex	26.5	32.6	33.9	37.2	28.1	33.5	18.2	9.7	7.2
PPoP	13.4	13.8	22.2	30.5	24.3	57.2	27.2	8.9	5.7
Investment gains	(75.0)	NM	NM	NM	NM	NM	NM	NM	NM
Core PPoP	19.3	14.4	9.2	21.8	18.2	16.2	29.9	12.8	12.4
Provisions	(6.3)	(18.9)	(10.3)	(10.4)	50.2	403.2	(9.0)	(7.0)	(25.2)
PAT	18.5	19.8	30.0	50.6	33.5	37.1	35.3	5.3	2.2
QoQ (%)									
NII	9.4	1.6	1.1	16.0	4.0	2.1	2.6	0.9	1.8
Other income	11.9	2.7	5.7	16.0	4.0	63.1	(41.3)	7.6	(0.3)
Net revenue	10.0	1.9	2.3	16.0	4.0	19.3	(14.3)	2.7	1.2
Opex	11.0	8.0	4.4	9.5	3.6	12.6	(7.5)	1.6	1.3
PPoP	9.4	(2.1)	0.8	20.9	4.2	23.8	(18.4)	3.4	1.2
Investment gains	NM	NM	NM	NM	NM	NM	NM	NM	NM
Core PPoP	5.5	(0.6)	(2.4)	18.8	2.4	(2.2)	9.1	3.2	2.1
Provisions	(13.4)	(4.3)	6.5	1.5	45.2	220.4	(80.7)	3.8	16.8
PAT	15.6	(1.7)	(0.8)	33.7	2.5	0.9	(2.0)	4.0	(0.5)

Source: Company, Elara Securities Research

Exhibit 2: Loan growth came in at 3% YoY/ 0.9% QoQ

(INR bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net advances	15,068	16,006	16,157	23,312	24,461	24,849	24,635	24,951	25,182
-YoY	19.5	16.9	15.8	57.5	62.3	55.2	52.5	7.0	3.0
-QoQ	1.8	6.2	0.9	44.3	4.9	1.6	-0.9	1.3	0.9

Source: Company, Elara Securities Research

Exhibit 3: Loan growth came in at 0.9% QoQ , led by ~2.1%/2.7% QoQ growth in Retail/Commercial Book

Segments (INR bn)	(INR bn)			Growth (%)		Loan mix (%)		
	Q3FY24	Q2FY25	Q3FY25	YoY (%)	QoQ (%)	Q3FY24	Q2FY25	Q3FY25
Personal Loans	1,815	1,896	1,944	7.1	2.5	7.3	7.5	7.6
Auto	1,280	1,375	1,399	9.3	1.7	5.2	5.5	5.5
Payment Products	971	1,097	1,123	15.7	2.4	3.9	4.4	4.4
Two Wheelers	113	125	122	8.0	(2.4)	0.5	0.5	0.5
Gold Loans	131	159	167	27.5	5.0	0.5	0.6	0.7
Other Retail	446	475	499	11.9	5.1	1.8	1.9	2.0
Retail Non-Mortgages	**4,756**	**5,127**	**5,254**	**10.5**	**2.5**	**19.3**	**20.4**	**20.7**
Retail mortgages	**7,450**	**8,028**	**8,171**	**9.7**	**1.8**	**30.2**	**31.9**	**32.1**
Total Retail advances	**12,206**	**13,155**	**13,425**	**10.0**	**2.1**	**49.4**	**52.2**	**52.8**
Emerging Corporates	2,199	2,204	2,192	(0.3)	(0.5)	8.9	8.7	8.6
Business Banking	3,068	3,439	3,629	18.3	5.5	12.4	13.7	14.3
Commercial Transportation	1,313	1,449	1,485	13.1	2.5	5.3	5.8	5.8
Other CRB	207	241	226	9.2	(6.2)	0.8	1.0	0.9
Total Commercial	**6,787**	**7,333**	**7,532**	**11.0**	**2.7**	**27.5**	**29.1**	**29.6**
Agriculture	**930**	**1,081**	**1,076**	**15.7**	**(0.5)**	**3.8**	**4.3**	**4.2**
Corporates and Other Wholesale	**5,365**	**4,765**	**4,806**	**(10.4)**	**0.9**	**21.7**	**18.9**	**18.9**
Gross advances	**25,288**	**26,334**	**26,839**	**6.1**	**1.9**	**102.4**	**104.5**	**105.6**
IBPC/BRDS	(594)	(1,144)	(1,413)	137.9	23.5	(2.4)	(4.5)	(5.6)
Total advances	**24,694**	**25,190**	**25,426**	**3.0**	**0.9**	**100.0**	**100.0**	**100.0**

Source: Company, Elara Securities Research

Exhibit 4: Sequential deposit accretion led by term deposit growth of ~4.6% QoQ

(INR bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Deposits	17,332	18,834	19,131	21,729	22,140	23,798	23,791	25,001	25,638
-YoY (%)	*19.9*	*20.8*	*19.2*	*29.8*	*27.7*	*26.4*	*24.4*	*15.1*	*15.8*
-QoQ (%)	*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
-YoY (%)	*8.3*	*14.3*	*14.4*	*7.7*	*12.3*	*13.3*	*5.9*	*11.2*	*4.4*
-QoQ (%)	*(1.0)*	*20.1*	*(7.7)*	*(1.8)*	*3.2*	*21.2*	*(13.8)*	*3.0*	*(3.0)*
SA	5,352	5,625	5,606	5,700	5,799	5,987	5,964	6,081	6,056
-YoY (%)	*13.6*	*9.9*	*9.1*	*7.6*	*8.4*	*6.4*	*6.4*	*6.7*	*4.4*
-QoQ (%)	*1.0*	*5.1*	*(0.3)*	*1.7*	*1.7*	*3.2*	*(0.4)*	*2.0*	*(0.4)*

Source: Company, Elara Securities Research

Exhibit 5: Business momentum witnessed a sequential slowdown

QoQ (%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Loan growth	1.8	6.2	0.9	44.3	4.9	1.6	(0.9)	1.3	0.9
NII growth	9.4	1.6	1.1	16.0	4.0	2.1	2.6	0.9	1.8
PPoP growth	9.4	(2.1)	0.8	20.9	4.2	23.8	(18.4)	3.4	1.2
Core PPoP growth	5.5	(0.6)	(2.4)	18.8	2.4	(2.2)	9.1	3.2	2.1

Source: Company, Elara Securities Research

Exhibit 6: Reported margin declined by 3bps QoQ to 3.43%

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Yield on advances - Calculated	9.01	9.18	9.45	11.00	9.51	9.43	9.49	9.58	9.56
Cost of funds - Calculated	4.13	4.32	4.75	6.43	5.77	5.66	5.74	5.79	5.83
NIM (on assets)	4.10	4.10	4.10	3.40	3.40	3.44	3.47	3.46	3.43

Source: Company, Elara Securities Research

Exhibit 7: Overall asset quality saw some uptick in GNPA at 1.42%

(INR mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Opening GNPA	183,010	187,639	180,190	190,641	315,779	310,117	311,733	330,257	342,506
Additions	66,000	49,000	58,000	78,000	70,000	73,000	79,000	78,000	88,000
Recoveries and upgradation	30,371	32,449	26,500	45,000	45,000	45,000	35,000	36,000	40,000
Write offs	31,000	24,000	21,000	32,500	31,000	26,000	26,000	29,000	31,000
Closing GNPA	187,639	180,190	190,690	191,141	309,779	312,117	329,733	343,257	359,506
GNPL (%)	1.23	1.12	1.17	1.34	1.28	1.24	1.33	1.36	1.42
NNPL (%)	0.33	0.27	0.30	0.35	0.31	0.33	0.39	0.41	0.46
PCR (%)	73.22	75.76	74.94	74.44	75.29	74.04	71.21	69.90	67.83
Slippages (%)#	2.1	1.4	1.6	1.9	1.2	1.2	1.3	1.3	1.4

Note: # Comparable post Q3FY24, Source: Company, Elara Securities Research

Exhibit 8: GNPA increases in CRB segment

	(INR mn)					(%)				
(INR mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Retail	100,089	99,761	105,099	110,502	111,428	0.8	0.8	0.8	0.8	0.8
CRB GNPA	122,700	128,090	143,070	149,769	169,578	1.6	1.6	1.8	1.8	2.0
CRB ex Agri GNPA	*73,300*	*81,935*	*87,674*	*90,929*	*95,656*	*1.1*	*1.2*	*1.2*	*1.2*	*1.3*
Agri GNPA	*49,401*	*46,155*	*55,396*	*58,840*	*73,921*	*5.5*	*5.0*	*5.3*	*5.9*	*6.8*
Corporate	89,596	87,290	84,568	85,294	82,183	1.7	1.7	1.8	1.8	1.7
Total GNPA	312,385	315,142	332,738	345,565	363,188	1.3	1.2	1.3	1.4	1.4

Source: Company, Elara Securities Research

Exhibit 9: Movement of contingency provisions – HDFCB utilized ~INR 3bn

(INR bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Opening provisions	96	94	97	97	142	150	149	145	138
Add fresh provisions after drawdowns	(2)	3	0	45	8	(1)	(1)	(1)	(3)
Closing provisions	94	97	97	142	150	149	145	138	135

Source: Company, Elara Securities Research

Exhibit 10: Liquidity coverage ratio stood at 125% vs 128% last quarter

(%)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
LCR	113	116	126	121	110	115	123	128	125

Source: Company, Elara Securities Research

Exhibit 11: Performance of HDB Financials - Gross stage-3 sees an uptick of 15bps QoQ to 2.25%

(INR bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Loans	651.0	700.3	735.7	778.6	840.0	902.0	956.0	986.0	1,021.0
Net income	22.3	22.6	23.1	23.6	23.5	22.9	23.9	24.1	25.0
PAT	5.0	5.5	5.7	6.0	6.4	6.6	5.8	5.9	4.7
Gross stage 3 ratio, %	3.7	2.7	2.5	2.4	2.3	1.9	1.9	2.1	2.3
Tier 1 ratio, %	16.0	15.9	15.8	15.7	14.5	14.1	14.0	14.6	14.4

Source: Company, Elara Securities Research

Q3FY25 conference call highlights

Opening remarks by MD and CEO

- Amidst challenging macro environment, tight liquidity constraints, moderating urban demand and volatility and depreciation in INR, capital outflows in ECM, HDFCB's growth drivers picked pace with pick-up in rural demand, improved government spending from H1FY25, increase in services exports and gradual moderation in inflation.
- In order to normalize CD ratio, HDFCB expects the deposit growth to outpace loan growth.
- Average deposits grew by 16% YoY – HDFCB is continuing to gain market share. HDFCB's AUM grew 8%.
- NIMs have remain range-bound and stable despite liquidity and high cost constraints.
- Productivity metrics have improved. HDFCB added 1K branches in the past fiscal, with cost up 7% YoY.
- **Future outlook:** HDFCB is well positioned to achieve balanced growth. It has sufficient liquidity and capital to capture loan market when macro-environment turns favourable.

Business momentum

- HDFCB had changed its stance to a slowdown in credit growth moderating its CD ratio. AUM growth of 7% YoY was in line with HDFCB's estimates. As macro-economic conditions improve, the rate of growth has been calibrated through credit model and price models.
- **Priority sector:** HDFCB has met PSL requirements on an aggregate levels. However, shortfall continuous in SMF and weaker sections (conditions similar to previous year). HDFCB has various steps in place to meet its PSL requirements – Organically growing on-balance book and IBPC to transact PTC securities and buy PSL from markets. HDFCB has largely factored in the cost of PSL in the ROA tree.
- **Emerging corporate book:** Spreads in this book are tightening (similar to large corporates) and HDFCB will continue to monitor pricing in this portfolio, managing relationships and wallet share.
- Business Banking portfolio is largely secured. Self-employed (individual business loans) are a part of retail loans and largely intact.
- MFI book was 1% of the total loan book (lending to woman in rural areas) and is performing well on account of asset quality.
- **Liquidity metrics:** Investments (net of cash and cash equivalents) of INR 500bn have been parked by treasury yielding ~6.5-7% (largely in 10-year G-sec at sub 7%). Weighted average cost of the borrowing of erstwhile HDFC is in the range of 7.9-8% (including cost of hedges). As part of treasury management, in Q3, HDFCB bought bonds of ~INR 44bn.
- RWA density is largely stable at 67% and RWA to (funded and non-funded including CCF factor) stood at 63%. This is ~5-7% lower than peers. Retail credit growth was brought down and once retail credit pick up, yields are likely to pick-up with a corresponding pick in RWA density.
- Of the total loan book, 70% is floating rate book (45% is repo-linked and latter pertains to MCLR and T-Bill) and balance 30% is fixed rate book.
- LDR ratio: from peak levels of ~110%, and has come down to 100% in Q3.

Asset quality

- Asset quality is in-line with HDFCB's credit parameters. Credit cost and slippages (excluding cyclical factors) have shown reasonably steady trends.
- Overall PCR stood at 68% and PCR (excluding Agri) at 71% (steady on sequential basis).
- Slippages in unsecured loans are largely under control as per HDFCB's credit under-writing model. Slippage ratio in this segment has remained largely stable despite a slowdown in growth.

- Contingent provision utilization was INR 3bn in Q3 due to one performing large wholesale account large wholesale accounts. This was recovered in this quarter.
- Within current GNPA of 1.42%, ~15bps of NPA pertained to performing assets and was classified as restructured in erstwhile HDFC.
- **Writing-off policy on unsecured loans:** HDFCB provides on 90 DPD. On secured loans, it is largely in the range of 150-180DPD per product-to-product basis.
- **HDB Financial Services:** GS-3 was up 15bps to 2.25%. However, GS-2 improved 5bps QoQ.

Cost, margins and other highlights

- NIMs have largely been stable and range-bound. Tailwinds through reduced borrowing cost have been offset by CASA. In the next few years, with improved CASA and rates reducing on consequent reduction in TD share, margin should spike.
- Interest reversal on Agri pertains to ~one-year interest of loan, amounting to INR 1-1.5bn in Q3.
- Cost-to-income was broadly steady at ~40.5%. Overall cost was up at 7.5% (in line with inflation cost at sub-8%). HDFCB will continue to invest in technological expenses (~10% of current spends versus single-digit previously). Per the bank, cost-to-asset of ~1.93% is best-in-class and the key monitorable for HDFCB.
- In Q3, HDFCB had -INR 2.5bn MTM on equity position, which has been routed through P&L.
- Employee headcount picked up in Q3 to ~210K (3k added in this quarter; 2K in 12-month period) – HDFCB has ramped up investment in people to implement productivity models. Of the total employee count, 85-90% have direct contact with the customers.
- Income tax refund in Q3 stood at ~INR 2bn versus ~INR 0.5bn in Q2.

Exhibit 12: Q3FY25 results highlights

(INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
Interest income	760,069	705,826	7.7	740,169	2.7
Interest expenses	453,536	421,113	7.7	439,030	3.3
Net interest income	306,533	284,713	7.7	301,139	1.8
Other income	114,536	111,370	2.8	114,827	(0.3)
Operating expenses	171,064	159,611	7.2	168,909	1.3
Staff expense	59,504	53,518	11.2	59,853	(0.6)
Other opex	111,560	106,093	5.2	109,056	2.3
Pre prov op profit (PPP)	250,004	236,473	5.7	247,057	1.2
Provisions	31,539	42,166	(25.2)	27,005	16.8
Profit before tax	218,466	194,307	12.4	220,052	(0.7)
Provision for tax	51,111	30,581	67.1	51,843	(1.4)
Profit after tax	167,355	163,725	2.2	168,209	(0.5)
EPS (INR)	21.9	21.6		22.0	
Ratios					
NII / GII	40.3	40.3		40.7	
Cost - income	40.6	40.3		40.6	
Provisions / PPOP	12.6	17.8		10.9	
Tax rate	23.4	15.7		23.6	
Balance sheet (INR bn)					
Advances	25,182	24,461	3.0	24,951	0.9
Deposits	25,638	22,140	15.8	25,001	2.5
CD ratio (%)	98.2	110.5		99.8	
Asset quality (INR mn)					
Gross NPA	360,186	310,117	16.1	342,506	5.2
Gross NPAs (%)	1.4	1.3		1.4	
Net NPA	115,875	76,641	51.2	103,085	12.4
Net NPA(%)	0.5	0.3		0.4	
Provision coverage (%)	67.8	75.3		69.9	

Source: Company, Elara Securities Research

Exhibit 13: SOTP valuation (Sept’2026E)

Particulars	Value per share (INR)
HDFC Bank - Merged entity (standalone)	1,749
Value of subsidiaries and associates (post hold. co. discount)	148
Total value per share	1,898

Source: Elara Securities Estimate

Abbreviation

ABV	Adjusted book value per share
BVPS	Book value per share
CA	Current Accounts
CASA Ratio	Current and savings account ratio
CBG	Commercial banking group
EBLR	External benchmark lending rate
ECLG	Emergency Credit Line Guarantee Scheme
EPS	Earnings per share
GCA	Gross customer assets
GNPL	Gross non-performing loans
LAP	Loans against property
MC	Mid-corporate
MCLR	Marginal Cost of Funds based Lending Rate
MTM	Mark to market
NII	Net interest income
NIM	Net interest margin
NNPL	Net non-performing loans
PCR	Provision Coverage Ratio
PPoP	Pre-provision operating profit
RoA	Return on Assets
RoE	Return on Equity
SBB	Small Business banking
SME	Small and medium-sized enterprises
SR	Security Receipts
TD	Term Deposits
WBG	Wholesale banking group

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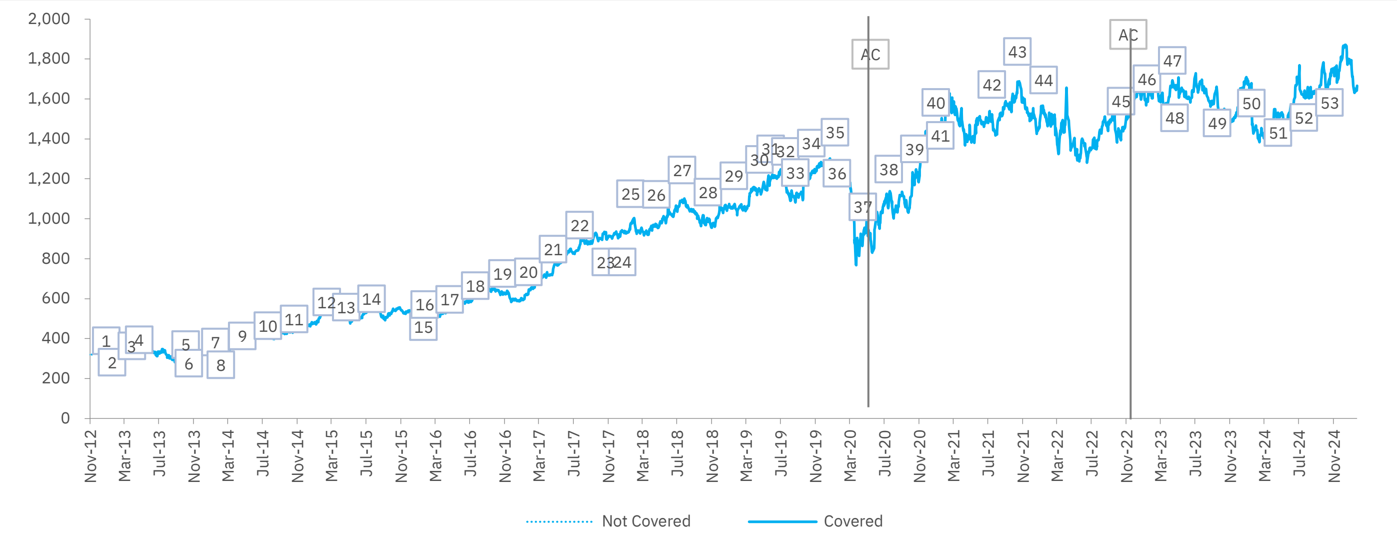

	Date	Rating	Target Price	Closing Price
46	13-Jan-2023	Buy	INR 1,925	INR 1,601
47	13-Apr-2023	Buy	INR 2,009	INR 1,692
48	21-Apr-2023	Buy	INR 2,013	INR 1,675
49	18-Sep-2023	Accumulate	INR 1,820	INR 1,629
50	16-Jan-2024	Accumulate	INR 1,889	INR 1,679
51	19-Apr-2024	Buy	INR 1,889	INR 1,531
52	19-Jul-2024	Accumulate	INR 1,843	INR 1,607
53	18-Oct-2024	Accumulate	INR 1,898	INR 1,682

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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