

HDFC Bank disappointed on deposit growth in Q1FY25, after a stellar uptick in Q4FY24 due to run-down in its CA pool as well as a conscious run-down in bulk deposits. However, the bank managed to report slight NIM improvement of 3bps QoQ to 3.66%, likely defying the industry trend. That said, lower treasury gains led to 3% PAT miss at Rs162bn. Going forward, Bank has guided to further calibrate credit growth (lower than deposit growth), reduce its high LDR to pre-merger levels, mobilise PSL (organically/inorganically), and still manage margins aided by improving portfolio mix and funding cost by gradually retiring eHDFCL's high-cost debt. Thus, we have cut our credit growth estimates over FY25-27 to 10-12% from 12-14%, partly offset by contained credit cost, thereby leading to earnings cut of 2-6%. However, we retain BUY with TP of Rs2,000/sh, rolling fwd on 2.4x Jun-26E standalone bank ABV and better subs valuations (Rs270/sh vs Rs250 earlier). We believe incremental deposit mobilization and IPO of HDB Fin Services will be key near-term monitorables.

HDFC Bank: Financial Snapshot (Standalone)

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	441,087	608,123	687,498	793,493	929,553
Loan growth (%)	16.9	55.2	9.5	11.0	12.0
NII growth (%)	20.6	25.0	14.3	14.9	14.9
NIM (%)	4.1	3.4	3.5	3.6	3.6
PPOP growth (%)	9.9	34.1	7.4	18.5	19.3
Adj. EPS (Rs)	79.1	80.0	90.5	104.4	122.4
Adj. EPS growth (%)	18.6	1.3	13.1	15.4	17.1
Adj. BV (INR)	497.8	553.6	624.6	703.7	795.7
Adj. BVPS growth (%)	16.2	11.2	12.8	12.7	13.1
RoA (%)	1.9	1.8	1.8	1.9	1.9
RoE (%)	17.0	14.2	14.7	15.1	15.7
P/E (x)	18.2	16.7	14.8	12.8	10.9
P/ABV (x)	2.9	2.4	2.1	1.9	1.7

Source: Company, Emkay Research

Bank guides for slower credit growth to prune high LDR, but still wants to manage margins

HDFCB reported subdued credit growth at 11% YoY/-1% QoQ on a merged basis as the bank continues to run-down eHDFCL's corporate book. Thus, the retail share has now risen to 50% of the book. Bank also continues to grow its CRB book at a faster pace, leading to its share rising to 32% as it drives in better yields and also helps build organic PSL. However, nearly flat deposit growth during Q1FY25 was a major upset after a stellar Q4FY24, due to outflow in CA pool and conscious unwinding of bulk deposits. Going forward, bank has guided to further calibrate credit growth (lower than deposit growth), reduce its higher LDR to pre-merger levels, mobilise PSL (organically/inorganically), and still manage margins aided by improving portfolio mix and funding cost by gradually retiring eHDFCL's high-cost debt. Bank is also open to raise lending rates to support margins, if the need arises.

Seasonally higher slippages; higher contingent buffer provides comfort

Bank reported seasonally higher slippages at Rs79bn/1.4% of loans, mainly due to seasonal stress in agri portfolio, partly aggravated by election-related disruption. Amid the rising stress in unsecured loans and possibly transient pain from farm loan waiver (if any) in Maharashtra (given upcoming elections in Nov), we believe the bank is well covered to protect its P&L backed by strong contingent/floating provision buffers (1.1% of loans; Rs35/sh). Hence, we build in contained credit cost at 0.5-0.6% over FY25-27E, which should support the bank's RoA amid slower growth.

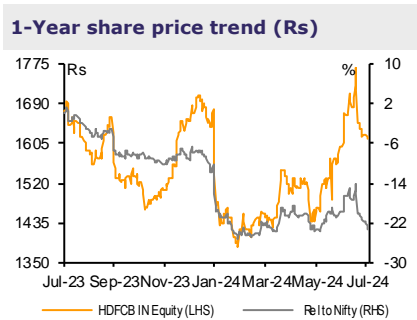
Retain BUY with a TP of Rs2,000/share

We have cut our credit growth estimates over FY25-27 to 10-12% from 12-14%, partly offset by contained credit cost, leading to 2-6% earnings cut. However, we retain BUY with a TP of Rs2,000/share, rolling fwd on 2.4x Jun-26E standalone bank ABV and better subs valuations (Rs270/share vs Rs250 earlier). We believe incremental deposit mobilization and IPO of HDB Financial Services will be key near-term monitorables.

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.4
CMP (19-Jul-24) (Rs)	1,607.3

Stock Data	Ticker
52-week High (Rs)	1,794
52-week Low (Rs)	1,363
Shares outstanding (mn)	7,608.1
Market-cap (Rs bn)	12,229
Market-cap (USD mn)	146,169
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	22
ADTV-3M (Rs mn)	34,015.8
ADTV-3M (USD mn)	406.6
Free float (%)	99.0
Nifty-50	24,531
INR/USD	83.7
Shareholding, Jun-24	
Promoters (%)	-
FPIs/MFs (%)	40.8/30.7

Price Performance			
(%)	1M	3M	12M
Absolute	(3.0)	5.0	(4.6)
Rel. to Nifty	(7.1)	(5.2)	(22.9)



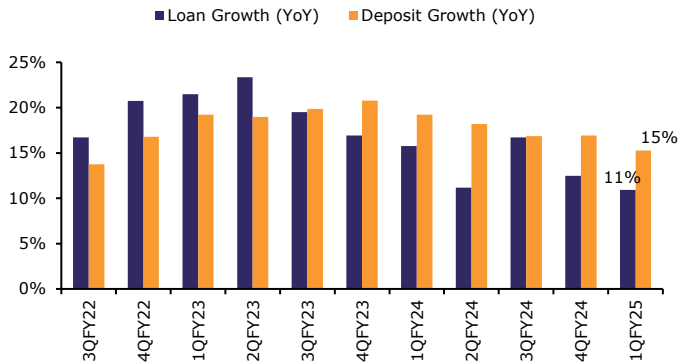
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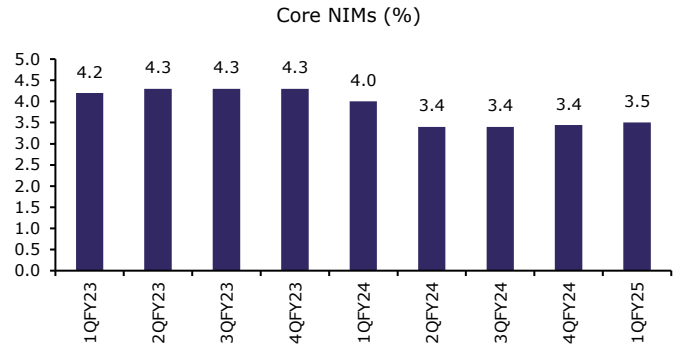
Story in Charts

Exhibit 1: Bank adopts calibrated credit growth strategy, amid continued struggle for deposits



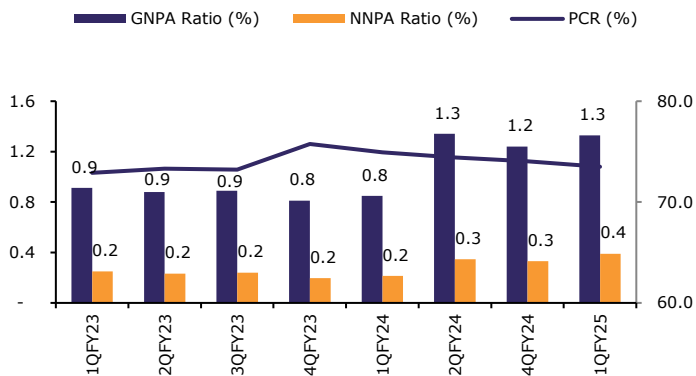
Source: Company, Emkay Research

Exhibit 2: The bank reported a slight improvement in NIM QoQ due to better portfolio mix and stable CoF



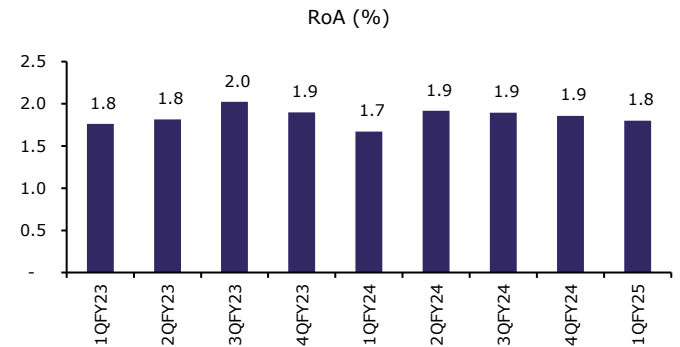
Source: Company, Emkay Research; Note: Figures from Q2FY24 represent NIMs on a merged basis and are therefore not comparable with the historical trend

Exhibit 3: NPA ratio inched up due to seasonal agri stress



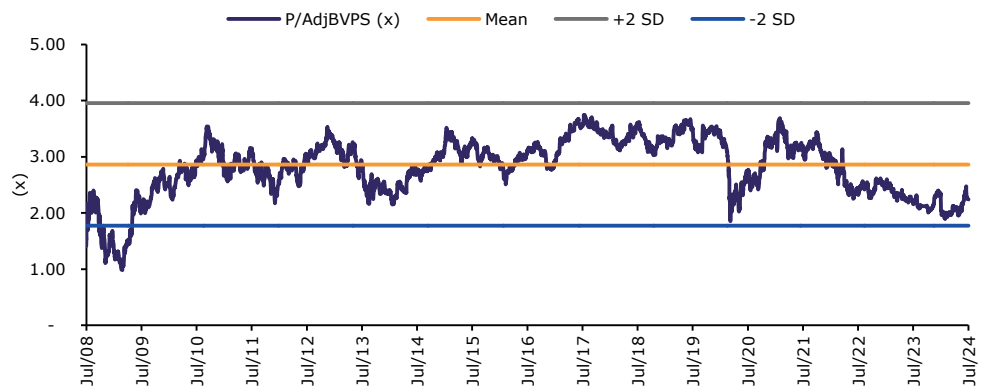
Source: Company, Emkay Research

Exhibit 4: RoA remain largely stable

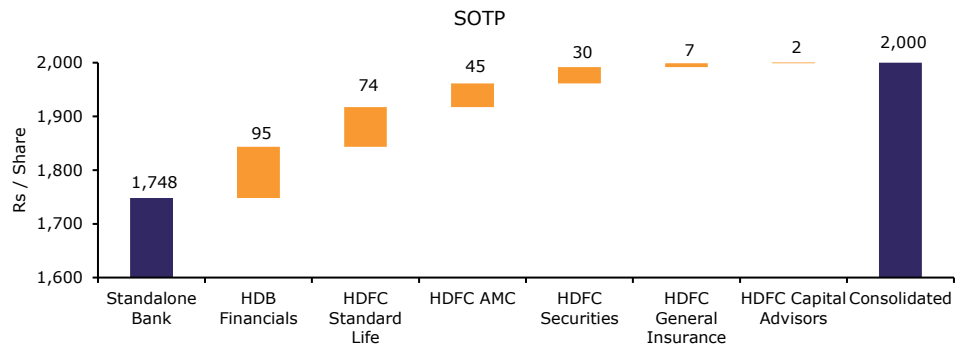


Source: Emkay Research

Exhibit 5: HDFCB trades at 2.2x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 6: SOTP-based valuation

Source: Company, Emkay Research

Exhibit 7: Actuals vs Estimates (Q1FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	405,052	417,435	409,549	-3%	-1%	Lower other income led to a slight miss
PPOP	238,846	246,402	238,385	-3%	0%	Lower net income partly offset by lower opex led to a slight miss
PAT	161,748	166,162	157,831	-3%	2%	Lower PPOP led to PAT miss

Source: Company, Emkay Research

Exhibit 8: Key assumptions

(%)	FY24	FY25E	FY26E	FY27E
Loan Growth	55.2	9.5	11.0	12.0
Deposit Growth	26.4	17.4	18.9	20.1
NIM	3.4	3.5	3.6	3.6
GNPA	1.2	1.2	1.2	1.3
Credit Cost	0.6	0.5	0.5	0.6

Source: Emkay Research

Exhibit 9: Key ratios and trend

(Rs bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Loans*	13,951	14,799	15,068	16,006	16,157	23,312	24,461	24,849	24,635
YoY growth (%)	21.6	23.4	19.5	16.9	15.8	57.5	62.3	55.2	52.5
QoQ growth (%)	1.9	6.1	1.8	6.2	0.9	44.3	4.9	1.6	(0.9)
Composition (%)									
- Corporate	64.1	65.2	63.1	63.9	63.0	48.5	48.5	47.7	46.5
- Retail	32.4	31.7	34.1	33.5	34.4	51.5	49.8	50.8	52.0
- Overseas	3.5	3.1	2.8	2.6	2.6	-	1.7	1.5	1.5
Liability Profile and Margins									
Deposits*	16,048	16,734	17,332	18,834	19,131	21,729	22,140	23,798	23,791
YoY growth (%)	19.2	19.0	19.9	20.8	19.2	29.8	27.7	26.4	24.4
QoQ growth (%)	2.9	4.3	3.6	8.7	1.6	13.6	1.9	7.5	(0.0)
CA	2,206	2,300	2,277	2,735	2,524	2,477	2,558	3,100	2,673
SA	5,141	5,297	5,352	5,625	5,606	5,700	5,799	5,987	5,964
CASA (%)	45.8	45.4	44.0	44.4	42.5	37.6	37.7	38.2	36.3
CA (%)	13.7	13.7	13.1	14.5	13.2	11.4	11.6	13.0	11.2
SA (%)	32.0	31.7	30.9	29.9	29.3	26.2	26.2	25.2	25.1
NIM (%) (on IEA)	4.2	4.3	4.3	4.3	4.3	3.6	3.6	3.6	3.7
Branches (nos)	6,378	6,499	7,183	7,821	7,860	7,945	8,091	8,738	8,851
Asset Quality and Capital Adequacy (%)									
GNPA	0.9	0.9	0.9	0.8	0.8	1.3	1.3	1.2	1.3
NNPA	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4
PCR	72.7	73.5	73.0	75.6	74.7	74.2	75.0	73.4	70.7
CAR	18.1	18.0	19.4	19.3	18.9	19.5	18.4	18.8	19.3
Tier I	17.1	17.1	17.2	17.1	16.9	17.8	16.8	16.8	17.3
ROE Decomposition (%)									
NII	3.7	3.6	3.8	3.7	3.3	3.3	3.3	3.3	3.3
Other Income (Ex Treasury)	1.5	1.3	1.4	1.4	1.2	1.2	1.1	1.2	1.2
Opex	2.0	1.9	2.1	2.1	2.0	1.8	1.8	2.0	1.9
PPOP	2.9	3.0	3.1	2.9	2.6	2.7	2.7	3.3	2.7
Provisioning Cost	0.6	0.6	0.5	0.4	0.4	0.3	0.5	1.5	0.3
PBT	2.3	2.4	2.7	2.5	2.2	2.4	2.2	1.8	2.4
ROA	1.8	1.8	2.0	1.9	1.7	1.9	1.9	1.9	1.8
Leverage (x)	8.3	9.2	9.1	9.1	9.7	8.2	8.2	8.1	7.8
ROE	14.7	16.7	18.3	17.2	16.3	15.8	15.5	15.0	14.1

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	3,034,803	3,302,421	3,639,942
Interest Expense	747,433	1,498,081	1,794,144	1,876,534	2,001,949
Net interest income	868,422	1,085,325	1,240,659	1,425,887	1,637,994
NII growth (%)	20.6	25.0	14.3	14.9	14.9
Other income	312,148	492,410	490,060	589,921	717,723
Total Income	1,180,571	1,577,734	1,730,719	2,015,808	2,355,716
Operating expenses	476,521	633,860	717,022	815,054	923,682
PPOP	704,050	943,874	1,013,697	1,200,754	1,432,034
PPOP growth (%)	9.9	34.1	7.4	18.5	19.3
Core PPOP	715,361	828,613	971,435	1,145,813	1,363,359
Provisions & contingencies	119,197	234,921	115,006	149,770	189,317
PBT	584,853	708,953	898,691	1,050,984	1,242,717
Extraordinary items	0	0	0	0	0
Tax expense	143,766	100,830	211,192	257,491	313,165
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	441,087	608,123	687,498	793,493	929,553
PAT growth (%)	19.3	37.9	13.1	15.4	17.1
Adjusted PAT	441,087	608,123	687,498	793,493	929,553
Diluted EPS (Rs)	78.7	91.7	90.0	103.9	0.0
Diluted EPS growth (%)	18.6	16.5	(1.9)	15.4	(100.0)
DPS (Rs)	19.1	22.5	21.0	24.0	28.0
Dividend payout (%)	24.0	24.4	23.2	23.0	22.9
Effective tax rate (%)	24.6	14.2	23.5	24.5	25.2
Net interest margins (%)	4.1	3.4	3.5	3.6	3.6
Cost-income ratio (%)	40.4	40.2	41.4	40.4	39.2
Shares outstanding (mn)	5,579.7	7,596.9	7,596.9	7,596.9	7,596.9

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	341,941.1	378,520.4	445,094.8
Net NPLs	43,684.2	80,917.3	95,743.5	109,770.9	133,528.5
GNPA ratio (%)	1.1	1.2	1.2	1.2	1.3
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	404,000.0	302,081.7	365,793.5	443,829.5
Gross slippage ratio (%)	1.5	1.6	1.1	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	1.9	2.1
Capital adequacy					
Total CAR (%)	19.3	18.8	18.8	18.4	18.1
Tier-1 (%)	17.1	16.8	17.0	16.9	16.7
CET-1 (%)	16.4	17.5	17.7	17.9	17.9
RWA-to-Total Assets (%)	64.3	68.2	69.0	70.0	70.0
Miscellaneous					
Total income growth (%)	22.6	59.5	14.6	10.4	12.0
Opex growth (%)	27.3	33.0	13.1	13.7	13.3
Core PPOP growth (%)	15.8	15.8	17.2	18.0	19.0
PPOP margin (%)	36.5	30.7	28.8	30.8	32.9
PAT/PPOP (%)	62.7	64.4	67.8	66.1	64.9
LLP-to-Core PPOP (%)	16.7	28.4	11.8	13.1	13.9
Yield on advances (%)	8.6	10.2	9.4	9.2	9.0
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	7,597	7,597	7,597
Reserves & surplus	2,796,410	4,394,861	4,945,430	5,556,597	6,273,437
Net worth	2,801,990	4,402,458	4,953,027	5,564,194	6,281,034
Deposits	18,833,946	23,797,863	27,937,191	33,228,525	39,912,546
Borrowings	2,317,656	6,621,531	5,677,801	4,608,241	3,752,593
Interest bearing liab.	21,151,602	30,419,394	33,614,992	37,836,766	43,665,139
Other liabilities & prov.	707,222	1,354,379	1,500,570	1,577,220	1,638,558
Total liabilities & equity	24,660,815	36,176,231	40,068,590	44,978,181	51,584,731
Net advances	16,005,859	24,848,615	27,215,779	30,214,045	33,829,163
Investments	5,170,014	7,024,150	8,040,371	9,232,484	10,828,684
Cash, other balances	1,937,651	2,191,474	2,353,049	2,724,247	3,711,537
Interest earning assets	23,113,524	34,064,239	37,609,199	42,170,775	48,369,384
Fixed assets	80,165	113,990	124,876	133,916	143,543
Other assets	1,467,125	1,998,002	2,334,515	2,673,489	3,071,805
Total assets	24,660,815	36,176,231	40,068,590	44,978,181	51,584,731
BVPS (Rs)	503.7	579.5	652.0	732.4	826.8
Adj. BVPS (INR)	497.8	553.6	624.6	703.7	795.7
Gross advances	16,142,365	25,079,431	27,461,977	30,482,794	34,140,729
Credit to deposit (%)	85.0	104.4	97.4	90.9	84.8
CASA ratio (%)	44.4	38.2	35.2	33.6	33.1
Cost of deposits (%)	3.6	4.7	5.0	5.0	4.8
Loans-to-Assets (%)	64.9	68.7	67.9	67.2	65.6
Net advances growth (%)	16.9	55.2	9.5	11.0	12.0
Deposit growth (%)	20.8	26.4	17.4	18.9	20.1
Book value growth (%)	16.0	15.0	12.5	12.3	12.9

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	18.2	16.7	14.8	12.8	10.9
P/B (x)	2.9	2.3	2.1	1.8	1.6
P/ABV (x)	2.9	2.4	2.1	1.9	1.7
P/PPOP (x)	11.7	11.1	10.3	8.7	7.3
Dividend yield (%)	1.2	1.4	1.3	1.5	1.7
DuPont-RoE split (%)					
NII/avg assets	3.8	3.2	3.3	3.4	3.4
Other income	1.4	1.4	1.3	1.4	1.5
Fee income	1.4	1.1	1.1	1.2	1.3
Opex	2.1	1.9	1.9	1.9	1.9
PPOP	3.1	3.1	2.7	2.8	3.0
Core PPOP	3.2	2.7	2.5	2.7	2.8
Provisions	0.5	0.7	0.3	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	8.1	8.2
RoE (%)	17.0	14.2	14.7	15.1	15.7

Quarterly data

Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY23	Q4FY24	Q1FY25
NII	289,286	273,852	284,713	290,768	298,371
NIM(%)	4.0	3.6	3.6	3.6	3.7
PPOP	264,709	226,939	236,373	292,742	238,846
PAT	181,563	159,761	163,725	165,119	161,748
EPS (Rs)	23.9	21.0	21.6	21.7	21.3

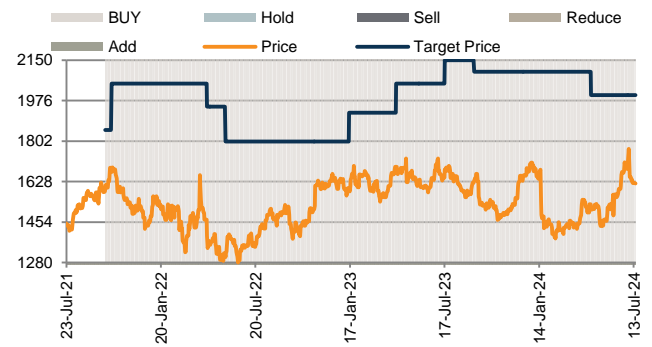
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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
16-Jan-22	1,545	2,050	Buy	Anand Dama
04-Jan-22	1,529	2,050	Buy	Anand Dama
17-Oct-21	1,687	2,050	Buy	Anand Dama
05-Oct-21	1,595	1,850	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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