

January 16, 2024

RESULT REPORT Q3 FY24 | Sector: Banks

HDFC Bank

Complex balance sheet jugglery lies ahead

Result Highlights (See "Our View" below for elaboration and insight)

- **Asset quality:** Annualized gross slippage ratio for 3QFY24 was 1.0% (Rs 70bn), with recoveries and upgrades amounting to Rs 45bn
- **Margin picture:** NIM at 3.4% was flat QoQ, as sequentially yield on assets and cost of funds have moved up in tandem
- **Asset growth:** Advances grew 4.9% QoQ on comparable basis, sequentially driven by Retail segment and Commercial and Rural Banking segment
- **Opex control (QoQ Comparable):** Total opex rose 3.6%/28% QoQ/YoY, employee exp. rose 3.5%/30% QoQ/YoY and otr. exp. rose 3.7%/27% QoQ/YoY
- **Fee income:** Fees and commissions were flat QoQ, where retail fee income constitutes 94% of the total fee income

Our view – Elevated loan to deposit ratio appears to be a challenge

Loan to deposit ratio stands at ~110% post the merger and management has acknowledged the need for it to decline: Management stated that the ratio would trend lower over the next several quarters. They further stated that deposits growth has to be 300-400 bps higher than loan growth to bring down loan to deposit ratio. As of now, sequential deposits growth of 1.9% materially lags loan growth of 4.9%. The bank's intention of driving deposit growth through branch addition is tough to execute given slow pace of branch addition (270 branches in the financial year so far compared with the intended 1500 for the full year) and new branch locations being focused mainly outside Tier 1 centres (and hence, with low deposit potential). It is unsurprising that the bank has not found it easy to run down the erstwhile HDFC Limited's high-cost borrowings, with total borrowings standing at a staggering Rs 7.37 trn compared with Rs 2.11 trn a year ago (prior to the merger).

Margin remaining stagnant at 3.4% on sequential basis is also indicative of the challenges for the bank: Despite enhancing loan to deposit ratio by 319 bps on sequential basis, NIM remained stagnant for the bank. Management has emphasized that loan mix change could be a tailwind for NIM, ceteris paribus but even this may not be straightforward to execute.

We maintain a less-than-bullish ADD rating with an unchanged price target of Rs 2000: We value the standalone bank at 2.7x FY25 P/BV for an FY24E/25E/26E RoE profile of 16.6/18.0/18.6%. We assign a value of Rs 209 per share to the subsidiaries, on SOTP. We had begun with a less-than-bullish ADD rating for HDFCB in our in our [Sector Initiation Report dated June 2021](#) and the stock has been a relative under-performer.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy [^]
Total Interest Income	705,826	676,984	4.3	427,078	65.3
Interest expended	(421,113)	(403,132)	4.5	(197,199)	113.5
Net Interest Income	284,713	273,852	4.0	229,878	23.9
Other income	111,370	107,078	4.0	84,998	31.0
Total Income	396,084	380,931	4.0	314,877	25.8
Operating expenses	(159,611)	(153,992)	3.6	(124,636)	28.1
PPOP	236,473	226,939	4.2	190,241	24.3
Provisions	(42,166)	(29,038)	45.2	(28,064)	50.2
PBT	194,307	197,901	(1.8)	162,176	19.8
Tax	(30,581)	(38,139)	(19.8)	(39,581)	(22.7)
PAT	163,725	159,761	2.5	122,595	33.5

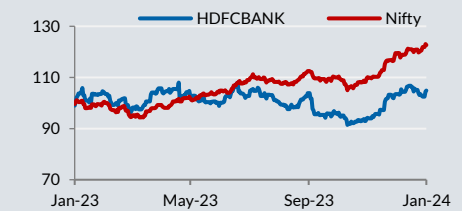
Source: Company, YES Sec-Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Recommendation	: ADD
Current Price	: Rs 1679
Target Price	: Rs 2000
Potential Return	: +19%

Stock data (as on January 16, 2024)

Nifty	22,032
52 Week h/l (Rs)	1758 / 1460
Market cap (Rs/USD mn)	12700690 / 152923
Outstanding Shares (mn)	7,592
6m Avg t/o (Rs mn):	29,029
Div yield (%):	0.8
Bloomberg code:	HDFCB IN
NSE code:	HDFCBANK

Stock performance



	1M	3M	1Y
Absolute return	1.4%	9.8%	5.9%

Shareholding pattern (As of Dec'23 end)

Promoter	0.0%
FII+DII	71.9%
Others	14.6%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	2000	2000

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	1,072,492	1,459,302	1,772,000
PPOP	943,639	1,308,208	1,594,577
Net Profit	586,140	824,661	988,718
Growth (%)	32.9	40.7	19.9
EPS (Rs)	78.5	110.5	132.5
BVPS (Rs)	569.7	658.7	765.5
P/E (x)	18.7	13.3	11.1
P/BV (x)	2.6	2.2	1.9
ROE (%)	16.6	18.0	18.6
ROA (%)	1.9	2.0	2.1
Tier-1 (%)	16.0	16.0	15.8

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	78.5	110.5	132.5
EPS (Old)	81.5	112.3	132.7
% change	-3.7%	-1.6%	-0.2%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Slippages for the quarter amounted to Rs 70bn, translating to a non-annualised gross slippage ratio of 26 bps.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 45bn for the quarter.
- **Write offs**
 - Write offs amounted to Rs 31bn for the quarter.
- **Provisions**
 - **P&L provisions**
 - Provisions were Rs 42.17bn, up by 45.2% QoQ and 50% YoY, translating to calculated annualised credit cost of 71bps.
 - Provisions for the quarter included additional contingent provisions amounting to Rs 12bn made on AIF exposures on a prudent basis.
 - Excluding the contingent provisions, the annualised credit cost was 49 bps for the quarter.
 - **Outstanding provisions**
 - Contingent and floating provisions amounted to Rs 154bn.
 - Other general provisions amounted to Rs 105bn.
 - Total provisions including specific, contingent, floating and general provisions amounted to 159% of GNPA.

Loan growth

- Overall loan growth was 4.9% QoQ.
- This was driven by commercial and rural banking loans, which grew 6.7% QoQ.
- Wholesale loans grew 1.9% QoQ excluding the wholesale portion of the erstwhile HDFC Limited.
- **Growth guidance**
 - Over a period of time, the bank has doubled in 4-5 years.
 - The bank is not fixated on a quarterly growth number but rather on return.

Deposits growth

- **Broad outcomes**
 - Overall deposits growth is 1.9% QoQ.
 - Retail deposits have grown 2.9% QoQ.
 - 2.2mn new liability relationships were added during the quarter.
- **Wholesale deposits**
 - Overall deposits growth was dragged lower by wholesale deposits declining Rs 118bn on sequential basis.
 - The wholesale deposits were de-grown since the deposit rates did not make sense.
 - For the first time in 3 years, the system liquidity was in negative territory for the entire quarter, impacting wholesale deposit rates.

(Con call takeaways continue on the next page)

- **CASA deposits**
 - CA balance was up 3.2% QoQ whereas, SA balance was up 1.7% QoQ.
 - The CASA ratio stood at 37.7%.
- **Deposits strategy**
 - The bank is not trying to differentiate itself on deposit pricing.
 - The bank's market share in incremental deposits is 18-20%.
 - Deposits growth has to be 300-400 bps higher than loan growth to bring down loan to deposit ratio.

Operating expenses

- **Total opex**
 - Total opex, at Rs. 159.6 bn, is up 3.6% QoQ and 28.1% YoY.
 - Consequently, cost/income ratio came in at 40.3%, down by -13bps QoQ but up 71bps YoY.
 - The cost to assets for the quarter was 1.9%.
- **Staff opex**
 - The staff opex is up by 3.5% QoQ and 29.7% YoY.
 - **Employee addition**
 - About 41000 employees have been added over the past 12 months and about 10,000 during the quarter.
- **Other opex**
 - Other opex in up by 3.7% QoQ and 27.3% YoY.
 - **Branch expansion**
 - 908 branches have been added over the past 12 months, taking the banking outlet count to 8091.
 - 146 branches were added during the quarter.
 - 270 branches have been added during the financial year so far and another 570 are in the pipeline.
 - Hence, the bank is likely to close the financial year with 800-1000 branch addition as opposed to the 1500 planned earlier as run rate.

Net interest margin

- **NIM for the quarter**
 - NIM, at 3.4%, was stable on sequential basis.
- **Liquidity**
 - The LCR for the quarter was 110%.
 - **Loan to deposit ratio**
 - The loan to deposit ratio has shot up to 110% post the merger.
 - The LDR should trend lower over several quarters.
- **Levers for NIM**
 - Share of retail loans in total loan book can be enhanced.
 - Within retail loans, the share of non-mortgage loans can be enhanced.
 - Unsecured loans, which have grown relatively slowly recently, can see an enhanced growth rate in the 20% ballpark.
 - The bank is also confident of improving its CASA ratio since customer spending will abate and new customers are being added.

Exhibit 2: Key quarterly balance sheet / business data

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy [^]
Gross Advances	24,693,000	23,546,330	4.9	15,205,030	62.4
Retail Excl. Agri	12,189,000	11,803,000	3.3	5,913,000	106.1
Commercial & Rural Excl. Agri	6,801,000	6,339,130	7.3	5,175,880	31.4
Agriculture	930,000	904,870	2.8	709,120	31.1
Corporates & Other Wholesale	4,363,000	4,281,090	1.9	3,922,540	11.2
eHDFCL Non-Individual	989,000	1,027,550	(3.8)	0	NA
IBPC/BRDS	(578,000)	(809,500)	(28.6)	(516,210)	12.0
Total Deposits	22,139,770	21,728,578	1.9	17,332,040	27.7
CA deposits	2,558,000	2,477,490	3.2	2,277,450	12.3
SA deposits	5,799,000	5,699,560	1.7	5,352,060	8.4
Term deposits	13,782,770	13,551,528	1.7	9,702,530	42.1

Source: Company, YES Sec – Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 3: Key quarterly ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy [^]
Net Interest Margin	3.40	3.40	0bps	4.10	-70bps
Yield on Assets	8.30	8.20	10bps	7.70	60bps
Cost of Funds	4.90	4.80	10bps	3.50	140bps
Non-interest income/Total income	28.1	28.1	1bps	27.0	112bps
Fee Income to Avg. Total Assets	0.9	1.1	-16bps	1.3	-32bps
Cost to Income ratio	40.3	40.4	-13bps	39.6	71bps
Opex to Avg. Total Assets	1.8	2.1	-23bps	2.2	-36bps
CASA ratio	37.7	37.6	11bps	44.0	-627bps
Loan to Deposit ratio	110.5	107.3	319bps	86.9	2355bps
Capital adequacy ratio	18.4	19.5	-115bps	19.4	-101bps
Tier I capital ratio	16.8	17.8	-100bps	17.2	-40bps
Common equity tier 1	16.8	17.3	-50bps	16.4	40bps
Annualised Slippage Ratio	1.0	1.3	-24bps	1.7	-64bps
Provision Coverage Ratio	75.0	74.0	100bps	73.0	200bps
RoA*	2.0	2.0	-4bps	2.2	-28bps
Gross NPA	1.3	1.3	-8bps	1.2	3bps
Net NPA	0.3	0.4	-4bps	0.3	-2bps

Source: Company, YES Sec – Research, *Annualised, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	284,713	286,176	(0.5)
Pre-Prov. Operating Profit	236,473	237,264	(0.3)
Profit After Tax	163,725	162,446	0.8

Source: Company, YES Sec – Research

Exhibit 5: Gross Advances Mix - Quarterly

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy [^]	Q3 FY24 (%) [*]	chg qoq [*]	chg yoy ^{*^}
Retail Mortgages	7,432,000	7,170,700	3.6	1,700,290	337.1	30.1	-36bps	1892bps
Personal Loans	1,815,000	1,786,910	1.6	1,646,410	10.2	7.4	-24bps	-348bps
Auto Loans	1,280,000	1,255,160	2.0	1,124,420	13.8	5.2	-15bps	-221bps
Payment Products	971,000	909,070	6.8	833,140	16.5	3.9	7bps	-155bps
Two Wheelers	113,000	109,570	3.1	97,590	15.8	0.5	-1bps	-18bps
Gold Loans	131,000	126,040	3.9	100,420	30.5	0.5	0bps	-13bps
Other Retail	446,000	445,000	0.2	411,000	8.5	1.8	-8bps	-90bps
Total Retail Assets	12,189,000	11,803,000	3.3	5,913,000	106.1	49.4	-76bps	1047bps
Emerging Corporates	2,212,000	2,059,630	7.4	1,706,230	29.6	9.0	21bps	-226bps
Business Banking	3,068,000	2,850,150	7.6	2,320,490	32.2	12.4	32bps	-284bps
Commercial Transportation	1,313,000	1,237,500	6.1	996,840	31.7	5.3	6bps	-124bps
Agriculture	930,000	904,870	2.8	709,120	31.1	3.8	-8bps	-90bps
Other CRB	207,000	192,000	7.8	153,000	35.3	0.8	2bps	-17bps
Total Commercial & Rural	7,731,000	7,244,000	6.7	5,885,000	31.4	31.3	54bps	-740bps
Corporates & Other Wholesale	4,363,000	4,281,090	1.9	3,922,540	11.2	17.7	-51bps	-813bps
eHDFCL Non-Individual	989,000	1,027,550	(3.8)	NA	NA	4.0	-36bps	NA
IBPC/BRDS	(578,000)	(809,500)	(28.6)	(516,210)	12.0	(2.3)	110bps	105bps
Total Gross Advances	24,693,000	23,546,330	4.9	15,205,030	62.4	100.0	0bps	0bps

Source: Company, YES Sec – Research, ^{*}Share in total gross advances and change in share, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 6: Operating Expense Break-up

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy [^]
Employee Expense	53,518	51,702	3.5	41,262	29.7
Other Operating Expense	106,093	102,290	3.7	83,374	27.3
Total Operating Expense	159,611	153,992	3.6	124,636	28.1

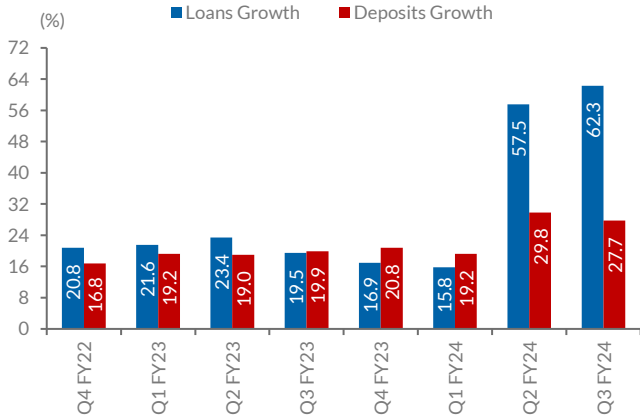
Source: Company, YES Sec – Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 7: Non-Interest Income Break-up

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy [^]
Fees & commissions	69,400	69,360	0.1	60,526	14.7
Foreign exchange & derivatives	12,100	12,210	(0.9)	10,741	12.7
P/L on sale / revaluation of investments	14,700	10,410	41.2	2,614	462.4
Miscellaneous income	15,200	15,100	0.7	11,118	36.7
Total Non-Interest Income	111,400	107,080	4.0	84,999	31.1

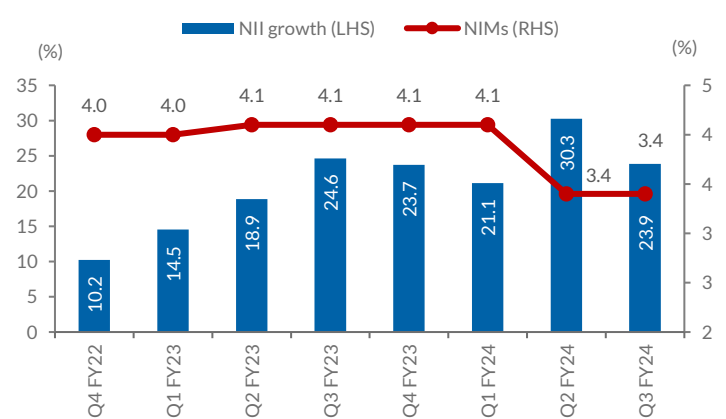
Source: Company, YES Sec – Research, [^]The YoY growth numbers are based on a non-comparable unmerged HDFC Bank entity

Exhibit 8: Loans and Deposits growth (YoY %)



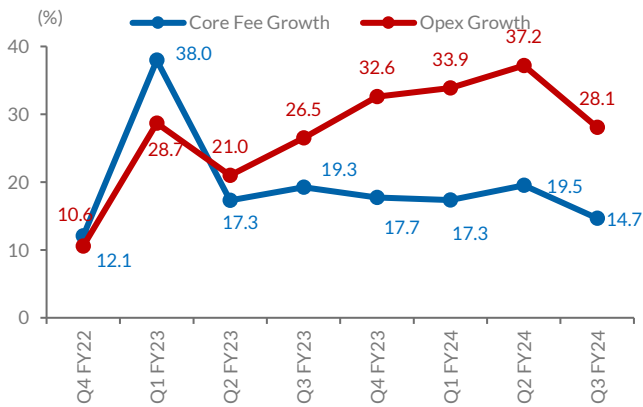
Source: Company, YES Sec – Research

Exhibit 9: NII growth (YoY %) and NIM



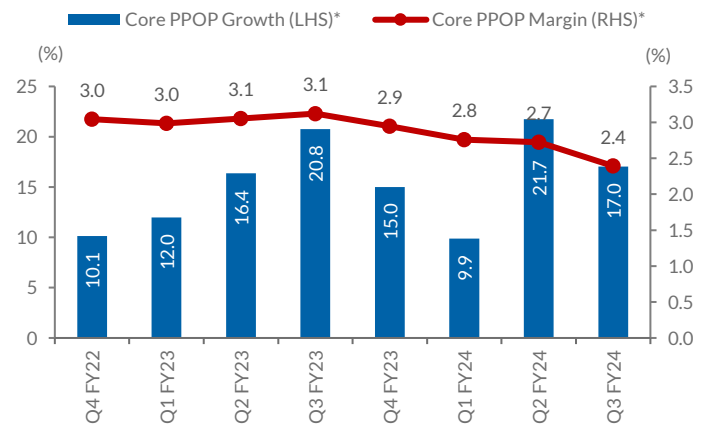
Source: Company, YES Sec – Research

Exhibit 10: Core Fee and Opex growth (YoY %)



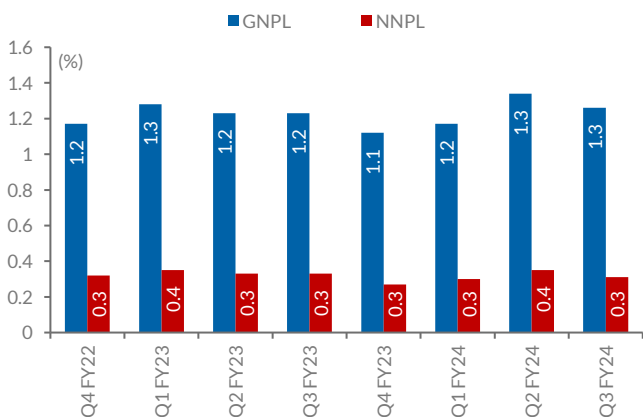
Source: Company, YES Sec – Research

Exhibit 11: Core PPOP growth (YoY %) and Core PPOP margin



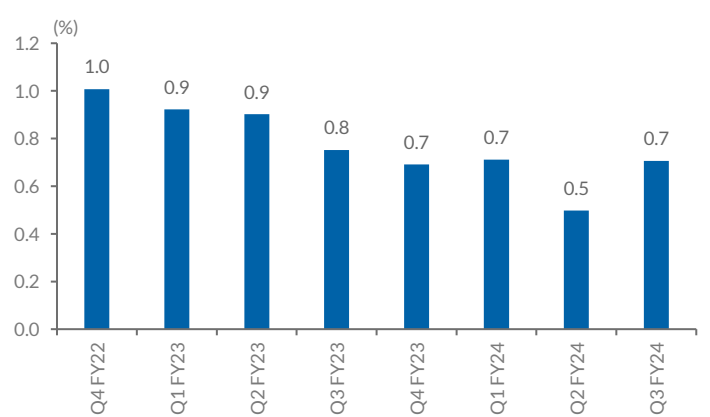
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 12: Gross NPA and Net NPA (%)



Source: Company, YES Sec – Research

Exhibit 13: Provisions/Average Advances (%)



Source: Company, YES Sec – Research

Exhibit 14: 1-year rolling P/BV band



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

Exhibit 15: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec - Research, N.B. Valuations in this chart are not adjusted / netted out for subsidiaries' value

ANNUAL FINANCIALS

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	1,523,269	1,937,651	2,799,099	3,246,955	3,798,937
Investments	4,555,357	5,170,014	7,666,832	8,766,115	10,120,980
Advances	13,688,209	16,005,859	25,446,355	29,517,772	34,535,793
Fixed assets	60,837	80,165	88,182	97,000	106,700
Other assets	857,678	1,467,125	1,760,550	2,112,660	2,535,192
Total assets	20,685,351	24,660,815	37,761,018	43,740,502	51,097,603
Net worth	2,400,929	2,801,990	4,252,304	4,916,980	5,713,887
Deposits	15,592,174	18,833,946	23,554,194	28,236,324	34,257,949
Borrowings	1,848,172	2,067,656	7,259,928	6,242,074	4,987,569
Other liabilities	844,075	957,222	2,694,591	4,345,123	6,138,198
Total liabilities incl. Equity	20,685,351	24,660,815	37,761,018	43,740,502	51,097,603

Source: Company, YES Sec – Research

Exhibit 17: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	1,277,531	1,615,855	2,168,346	2,904,483	3,376,634
Interest expense	(557,435)	(747,433)	(1,095,854)	(1,445,181)	(1,604,634)
Net interest income	720,096	868,422	1,072,492	1,459,302	1,772,000
Non-interest income	295,099	312,148	487,810	644,455	751,335
Total income	1,015,195	1,180,570	1,560,302	2,103,757	2,523,335
Operating expenses	(374,422)	(476,521)	(616,663)	(795,549)	(928,758)
PPoP	640,773	704,050	943,639	1,308,208	1,594,577
Provisions	(150,618)	(119,197)	(162,119)	(208,660)	(276,286)
Profit before tax	490,155	584,853	781,520	1,099,548	1,318,291
Taxes	(120,541)	(143,766)	(195,380)	(274,887)	(329,573)
Net profit	369,614	441,087	586,140	824,661	988,718

Source: Company, YES Sec – Research

Exhibit 18: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	6.7	7.1	6.9	7.1	7.1
Interest expense	-2.9	-3.3	-3.5	-3.5	-3.4
Net interest income	3.8	3.8	3.4	3.6	3.7
Non-interest income	1.5	1.4	1.6	1.6	1.6
Total income	5.3	5.2	5.0	5.2	5.3
Operating expenses	-2.0	-2.1	-2.0	-2.0	-2.0
PPoP	3.4	3.1	3.0	3.2	3.4
Provisions	-0.8	-0.5	-0.5	-0.5	-0.6
Profit before tax	2.6	2.6	2.5	2.7	2.8
Taxes	-0.6	-0.6	-0.6	-0.7	-0.7
Net profit	1.9	1.9	1.9	2.0	2.1

Source: Company, YES Sec – Research

Exhibit 19: Sum of the Parts (SOTP) - Subsidiaries

Subsidiary	Market Cap / Assigned value (Rs mn)	Valuation metric	Metric value (Rs mn)	Trailing multiple (Implied / Assigned)	Stake (%)	Stake value (Rs mn)	Per share (Rs)
HDB Financial Services	400,295	BV	114,370	3.5x	95.0%	380,120	50.9
HDFC Securities	53,914	BV	17,971	3.0x	96.3%	51,941	7.0
HDFC AMC	733,136	QAAUM	5,515,205	13.3%	52.6%	385,336	51.6
HDFC Life	1,314,806	EV	429,080	3.1x	50.3%	661,742	88.7
HDFC ERGO	163,165	PE	6,527	25.0x	50.5%	82,398	11.0
Value of Subsidiaries						432,061	209.2

Source: Company, YES Sec – Research

Exhibit 20: Change in Annual Estimates

Y/e 31 Mar (Rs. mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	1,072,492	1,459,302	1,772,000	1,102,144	1,480,489	1,780,332	(2.7)	(1.4)	(0.5)
Pre-Prov. Operating Profit	943,639	1,308,208	1,594,577	973,291	1,329,856	1,604,199	(3.0)	(1.6)	(0.6)
Profit after tax	586,140	824,661	988,718	608,379	838,034	990,560	(3.7)	(1.6)	(0.2)

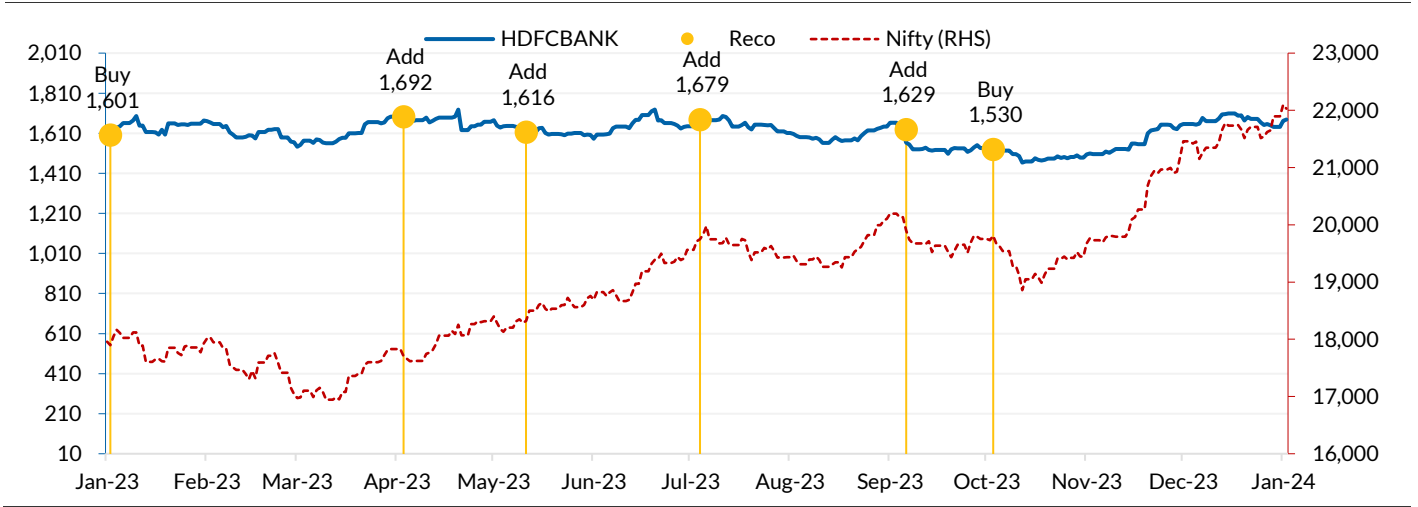
Source: Company, YES Sec – Research

Exhibit 21: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	11.0	20.6	23.5	36.1	21.4
PPoP	11.7	9.9	34.0	38.6	21.9
Net profit	18.8	19.3	32.9	40.7	19.9
Loans	20.8	16.9	59.0	16.0	17.0
Deposits	16.8	20.8	25.1	19.9	21.3
Profitability Ratios (%)					
Net interest margin	4.0	4.1	3.7	3.9	4.0
Return on Average Equity	16.7	17.0	16.6	18.0	18.6
Return on Average Assets	1.9	1.9	1.9	2.0	2.1
Per share figures (Rs)					
EPS	66.7	79.1	78.5	110.5	132.5
BVPS	433	502	570	659	765
ABVPS	425	494	551	630	731
Valuation multiples					
P/E	22.1	18.6	18.7	13.3	11.1
P/BV	3.4	2.9	2.6	2.2	1.9
P/ABV	3.5	3.0	2.7	2.3	2.0
NIM internals (%)					
Yield on loans	7.9	8.6	8.2	8.4	8.4
Cost of deposits	3.4	3.6	4.0	4.1	4.1
Loan-deposit ratio	87.8	85.0	108.0	104.5	100.8
CASA ratio	48.2	44.4	37.0	37.0	37.0
Opex control (%)					
Cost/Income ratio	36.9	40.4	39.5	37.8	36.8
Cost to average assets	2.0	2.1	2.0	2.0	2.0
Capital adequacy (%)					
Tier 1 capital ratio	17.9	17.1	16.0	16.0	15.8
Asset quality (%)					
Slippage ratio	2.1	1.7	1.2	1.2	1.2
Gross NPL ratio	1.2	1.1	1.3	1.5	1.6
Credit cost	0.8	0.8	0.6	0.7	0.8
Net NPL ratio	0.3	0.3	0.5	0.7	0.8

Source: Company, YES Sec – Research; Valuations are the implied valuation of standalone entity net of subsidiaries

Recommendation Tracker



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